ISBN: 978-93-83729-17-9

Chapter -32

ABSTRACT AND IMPACT OF GST ON INDIAN ECONOMY

Dr P. Ratna Mary

HOD, Dept of Social sciences
St Theresa's College for women (A), Eluru

Abstract:
Goods & Services Tax is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition. Goods and Service Tax (GST) is implemented in India to bring in the 'one nation one tax' system, but its effect on various industries will be slightly different. The first level of differentiation will come in depending on whether the industry deals with manufacturing, distributing and retailing or is providing a service. Amidst economic crisis across the globe India has posed as a ray of hope with ambitious growth targets supported by strategic missions like make in India and digital India. GST is expected to provide the much needed stimulant for economic growth in India by transforming the existing basis of indirect taxation towards free flow of goods and services within the economy and also eliminating the multiplying effect of tax on tax. In view of the important role that India is expected to play in the world economy in the years to come the expectation of GST being introduced is high not only within the country but also in neighboring countries and in developed economies of the world. The main objective of this paper is to evaluate the impact of GST on Indian economy.

Introduction :
The word tax is derived from Latin word "taxare" which means to estimate. A tax is an enforced contribution, exacted pursuant to legislative authority. Indian Taxation System comprise of-Direct and Indirect Tax. Goods and Services Tax (GST) is one of the most discussed Indirect Taxation reforms. It is a comprehensive tax regime levied on manufacture, sales and consumption of goods and services. It is expected to bring about 2% incremental GDP growth of the country. So, GST is the need of the hour.

GST is an indirect tax which will include almost all the indirect taxes of central government and states governments into a uniform or whole tax. As the name suggests it will be levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST). CGST will subsume indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs;

counter veiling duties whereas indirect taxes of state governments like state vat, purchase tax,

luxury tax, octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax for the services sector. It is expected that the GDP growth is likely to be raised up to 1 to 2%, but the results can only be analysed after the implementation of GST. By merging large no. of centre and state taxes into one single point taxation system will reduce burden on producers and foster growth through more production. Various toll plazas and tax barriers leads to a lot of wastage for perishable items being transported which leads into the increase the costs of goods. GST could eliminate this road block which leads to lowering of prices for essential goods.

Currently, tax rates differ from state to state. GST will ensure a comprehensive tax base with minimum exemptions, will help industry, which will be able to reap benefits of common procedures and claim credit for taxes paid. Through GST, the government aims to create a single comprehensive tax structure that will subsume all the other smaller indirect taxes on consumption like service tax,Supposed to be a major game changer. It is a single indirect tax for the whole nation, one which will make India a unified common market. It is a single tax on the supply of goods and services, right from the manufacturer to the consumer.

GST will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth. Ultimately it will help in poverty eradication by generating more employment and more financial resources. GST Will prevent cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply.

The centre will have to coordinate with 29 states and 7 union territories to implement such tax regime. Such regime is likely to create economic as well as political issues. The states are likely to lose the say in determining rates once GST is implemented. The sharing of revenues between the states and the centre is still a matter of contention with no consensus arrived regarding revenue neutral rate. Pre GST service tax of 15%, which would increase to 18-20% in post GST. Hence, although prices of goods and products can come down, service industry will bear the brunt of higher taxes. Air travel, hotels would become more expensive. Currently, economy class tickets are taxed 6% and non-economy class tickets are charged 9%. Once GST is implemented, it would increase to 18%, thereby leading to direct increase of 9-12% tax on the tickets. Unless the airlines absorb this increase, the additional tax has to be paid by the consumer.

Tax system before GST:

1.Central Taxes

- Central Excise duty
- Additional duties of excise
- Excise duty levied under Medicinal & Toiletries Preparation Act
- Additional duties of customs (CVD & SAD)
- Service Tax • Surcharges & Cesses

2**. State Taxes**

- State VAT / Sales Tax
- Central Sales Tax
- Purchase Tax
- Entertainment Tax (other than those levied by local bodies)
- Luxury Tax
- Entry Tax (All forms)
- Taxes on lottery, betting & gambling
- Surcharges & Cesses

Benefits of GST to the Indian Economy

- Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise.
- Less tax compliance and a simplified tax policy compared to current tax structure.
- Removal of cascading effect of taxes i.e. removes tax on tax.
- Reduction of manufacturing costs due to lower burden of taxes on the manufacturing sector. Hence prices of consumer goods will be likely to come down.
- Lower the burden on the common man i.e. public will have to shed less money to buy the same products that were costly earlier.
- Increased demand and consumption of goods.
- Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods.

- Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check.

A single registration for both CGST & SGST will reduce transaction costs and also unnecessary wastages. To make this more effective Government has to provide necessary IT infrastructure & integration of States level with the Union. With the introduction of GST, Tax on Tax i.e. multiplicity of taxation will be eliminated. A number of taxes currently levied on each level of transaction will be reduced. This will help clearing the confusion created by existing indirect taxes and also reduce the paper work associated with them. There won't be any fear of taxation that may crop up at any stage of supply chain. This will not only help the business community to decide price modalities and supply chain but also the consumers in the long run. The goods will be competitive as the price will not be the main focus but the innovation and business intelligence will be. Consumers will be benefitted the most as the average tax burdens will be reduced with the introduction of GST. Implementation of GST will help reduce the corruption in the country, because GST reduces the multiple tax system. Due to full end seamless credit manufactures or traders do not have to include taxes as a part of their cost of production which is very big reason to say that we can see a reduction in prices. However, if the government seeks to introduce GST with a higher rate this might be lost.All most every industry body are "fully prepared" for implementation of the new indirect tax regime, while commending the government's efforts towards its rollout. The nationwide GST will overhaul India's convoluted indirect taxation system and unify the over $2 trillion economy with 1.3 billion people into a single market. The medium-term impact of GST on macroeconomic indicators is expected to be extremely positive. Inflation will be reduced as cascading of taxes will be eliminated. Assocham president Sandeep Jajodia said India would move many notches up the global ease of doing ladder by this single, but the most important tax reform in the country.

Impact of goods and service tax

Fast moving consumer goods sector: The Indian FMCG sector is the fastest growing sector in the economy. FMCG sector is the major contributor in both direct and indirect taxes in the economy. Implementation of Goods and services tax will majorly influence Indian economy. The current rate of taxation in FMCG sector is around 22 to 25% and after GST rate is expected to be much lower which will result in reduction of prices of consumer goods.

1 Food Industry: A large portion of consumer expenses of lower income families spend on food so if there is any tax on food will influence majority of the population or may be regressive in nature. In some of the countries like Canada, UK and Australia tax on food items is while in some countries like Singapore and Japan tax on food is negligible. So it would be ideal if the GST rates may be Zero or would be very low as it would affect people quite significantly.

2 Information Technology enabled services: - The IT industry will not hamper by the implementation Of GST. The expected rate of GST in IT sector is 27% According to proposed plan if software transferred through electronic form will be considered under services and if by any other media it would be under goods. So the IT industry will make mix taxation.

3 Infrastructure sector: - Development of Roads, Power, Railways, and Ports etc. are the major infrastructure sectors in India. As the taxation system in Infrastructure sector is very complex. There are exemptions and subsidies for this sector as it is very important for the development of the country. By the subsumed under a single rate of tax. So the movement of agriculture commodities between states will be easier & hassle free which will save time and remove wastages for the transportation of perishables items.

The introduction of the Goods and Services Tax will be a very noteworthy step in the field of indirect tax reforms in India. By merging a large number of Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation overall easy for the industries. For the end customer, the most beneficial will be in terms of reduction in the overall tax burden on goods and services. Introduction of GST will also make Indian products competitive in the domestic and international markets..

"In sectors such as logistics, the benefit of GST is immediately visible in terms of efficiency, while a boost to the economic growth rate that GST is expected to fetch is a medium-term goal," said Joshi.

What brings uncertainty about how soon businesses and the information technology (IT) systems supporting GST could settle down is the unprecedented nature and scale of the tax reform that threw up unexpected challenges to policymakers and to the IT infrastructure. After a lot of deliberation, our GST council has finalised the rates for all the goods and major service categories under various tax slabs, and the GST is expected to fill the loopholes in the current system and boost the Indian economy. This is being done by unifying the indirect taxes for all states throughout India.

The tax rate under GST are set at 0%, 5%, 12%, 18% and 28% for various goods and services, and almost 50% of goods & services comes under 18% tax rate. But how is our life going to change post GST? Let's see how GST on some day-to-day good and services will have an impact on an end user's pocket.

4 Footwear & Apparels/Garments:

Footwear costing more than INR 500 will have a GST rate of 18% from an earlier rate of 14.41 rate but rates for the footwear below INR 500 has been reduced to 5%. So, you need to shell out more for buying a footwear above INR 500/-. And with respect to the ready-made garments, the rates have been reduced to 12% from an existing 18.16% which will make them cheaper.

5 Cab and Taxi rides:

Now, taking an Ola or an Uber will be cheaper because the tax rate has come down to 5% from an earlier 6% for a cab booking made online.

6 Airline tickets:

Under the GST, tax rate for economy class for flight tickets is set at 5% but the tax for business class tickets will have a higher tax rate of 12%.

7 Train Fare:

There will not be much of an impact. The effective tax rate has increased from 4.5% to 5% in GST. But, passengers who travels for business trips can claim Input Tax Credit on their rail ticket which can help them to reduce expenses. People travelling by local trains or in the sleeper class will not be affected, but first-class & AC travellers will have to pay more.

8 Movie Tickets:

Movies tickets costing below INR 100 will be charged a GST rate of 18% but prices above INR 100 will have a higher tax rate of 28%.

9 Life Insurance Premium:

The Premium Amounts on policies will rise, with an immediate impact can be seen on your term and endowment policy premiums as the rates have been increased under GST across life, health and general insurance.

10 Mutual funds Returns:

GST impact on your returns from mutual funds investments will largely be marginal as the GST will be charged on the TER i.e. Total Expense Ratio of a mutual fund. The TER is commonly called as expense ratio of a mutual fund company, and the same is set to go up by 3%. The return what you get as an investor will be reduced to that extent unless the respective mutual fund company i.e. AMC absorbs it but that anyhow will be a marginal difference.

11 Jewellery:

The gold investment will become slightly expensive because there will be 3% GST on gold & 5% on the making charges. The earlier tax rate on gold was around 2% in most of the states and the GST is increased from the existing rate to around 2% to 3%.

12 Buying a Property:

Under construction properties will be cheaper than read-to-move-in properties. The GST rate for an under-construction property is 18% but the effective rate on this kind of property will be around 12% due to input tax credits the builder will avail of.

13 Education & Medical Facilities:

Education and Medical sectors have been kept outside the GST ambit and both the primary education & healthcare is exempt from GST. It means a consumer will not pay any tax for the money you spent on these services. But due to increase in the rate of taxes for certain goods & services as procured by these organisations, they may pass on the additional tax burden to the consumers.

14Hotel Stay:

For your hotel stay, If your room tariff is less than Rs 1,000, then there will be no GST, but anything above Rs 5,000 will attract 28% tax.

15 Buying a Car:

Most of the cars in the Indian market will become slightly cheaper, except for the hybrid cars because the GST rate will be 28% tax on all the vehicles irrespective of their make, engine capacity or model. However, over and above this 28%, an additional cess will be levied which can be either 1%, 3% or 15 %, depending on the particular car segment.

16 Mobile Bills:

People will have to pay more on mobile phone bills as GST on telecom services is now 18%, as opposed to the earlier tax rate of 15%. However, telecom companies may absorb this 3% rise due to fierce competition.

17 Restaurant Bills/EATING OUT:

Your restaurant bill would depend on whether you dined at an AC or Non-AC establishments which do not serve alcohol. Now dining at five-star hotels will be charged at 18% GST rate and the Non-AC restaurants will be charged 12% and a 5% GST will be charged from small hotels, dhabas and restaurants who do not cross an annual turnover of INR 50 Lakh.

18 IPL & other related events:

Events like IPL i.e. sporting events will have a 28% GST rate which is higher than the earlier 20%.rates. This will increase the price of your tickets. And the GST rate for other events like theatre, circus or Indian classical music shows or a folk dance performance or a drama show will be at 18% GST rate, this is lesser than the earlier tax rate.

19 DTH and cable services:

The money you pay towards your DTH (Direct-To-Home) connections or to your cable operator will reduce a bit as the rate is fixed at 18%, which is lower than the earlier taxes which were comprising of entertainment tax in the range of 10% to 30%, apart from the service tax of 15%.

20 Amusements Parks:

The ticket price for amusement parks and theme parks will increase as the earlier service tax of 15% will become 28% under the GST.

Here's is a list of some items which are completely exempt from the GST regime:

*The unprocessed cereals, rice & wheat etc.

*The unprocessed milk, vegetables (fresh), fish, meat, etc.

*Unbranded Atta, Besan or Maida.

*Kid's colouring book/drawing books.

*Sindoor/Bindis, bangles, etc

Conclusion:

On priority, it is up to the government to address the capacity building amongst the lesser-endowed participants, such as the small-scale manufacturers and traders. Ways have to be found for lowering the overall compliance cost, and necessary changes may have to be made for the good of the masses. GST will become good and simple, only when the entire country works as a whole towards making it successful.

References:

The Economic Times (2009) Featured Articles from The Economic Times "How GST will impact sectors",

http://economictimes.indiatimes.com

"GST-Analysis and Opinions" cleartax.in

"GST impact on economy: Five things to watch out for" hindustantimes.com

https://www.researchgate.net/publication/318421150

https://www.deskera.in/gst-benefits-and-impact-on-indian-economy