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GST: Impact on Indian Economy

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ABSTRACT: GST stands for "Goods and Services Tax" implemented by the Government of India since 1st April, 2017 this year. Its introduction by the Constitution (One hundred and First Amendments) Act, 2016 was considered to be one of the most crucial steps in the field of indirect tax reform structure of India. Therefore, GST was defined as a comprehensive consumption based tax levied upon manufacture, sale and consumption of goods as well as services which helped in transforming the country into one unified common market. Many inexplicit arguments were raised about GST after its implementation. The research paper will throw light on how Goods and Services Tax (GST) would help in reducing the existing complexity of taxes in India as it subsumes Value Added Tax (VAT), Excise Duty, Service Tax and Sales tax. The first part of the paper is the introductory part. Second part of the paper will discuss the effect of GST on Indian economy. Finally the last section will focus on conclusion part of the paper.

Key words: GST, Economy, India, VAT.

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I. INTRODUCTION

Goods and Services Tax or GST was introduced by the Constitution (One hundred and First Amendments) Act, 2016 in India. It is a comprehensive value added tax levied on manufacture, sale and consumption of goods as well as services. Depending upon the transaction, GST is categorized into three components, i.e., CGST (Central Goods and Services Tax), SGST (State Goods and Services Tax) and IGST (Integrated Goods and Services Tax), charged by the Central government and State government respectively.CGST will be charged for transactions related to intra-State which will be paid to the account of Central government, whereas SGST is going to be collected by the State government for transactions within a State. In an inter-State transaction of goods and services, the Central government will collect IGST, which is an additional tax to be levied, to assure that the tax is received by the Importer State.

Most of the countries followed the three types GST system while some countries like Canada followed a dual GST system, i.e., where tax is imposed by both the Central and State government. In India also dual system of GST is followed, i.e., CGST and IGST.Therefore, GST is a single indirect tax which will be levied on the product or service which is sold in the market. It will eventually replace multiple taxes such as Central Excise Duty, Central Sales Tax, State Sales Tax, Service Tax, special additional duty on customs, etc. Indirect taxes of State government like State VAT, Purchase Tax, Luxury Tax, Tax on Lottery and Gambling will be replaced by SGST. This three types tax structure will thus help in transforming the country into one unified common market. More than 150 countries have implemented GST so far.

Objectives of Goods and Services Tax or GST:
Due to the complex nature of the indirect tax structure in India, Goods and Services Tax or GST was proposed to fulfill the following objectives:

- To eliminate the cascading effects of production and distribution of goods and services;
- To eliminate the indirect taxation system in India. This would be beneficial for the manufacturer as well as for the consumer;
- To overcome the shortcoming of the Value Added System;
- To optimize the efficiency and equity of system; and
- To restrict the export of taxes across taxing jurisdiction.

Features of Goods and Services Tax or GST:

- GST is one indirect tax for the entire nation.
- It will replace multiple taxes in India like Value Added Tax, Excise Duty, Entry Tax, Luxury Tax, etc.
- GST is categorized into four types namely:

1. SGST (State GST), collected by the State government
2. CGST (Central GST), collected by the Central government
3. IGST (Integrated GST), collected by the Central government.

4. UTGST (Union Territory GST), collected by the Union Territory

- Tax payers with an aggregate turnover in a financial year up to Rs. 20 lakhs and Rs. 10 lakhs for North Eastern States and Special Category States, would be exempted from tax.
- GST slabs are divided into five tax categories, i.e., o%, 5%, 12%, 18% and 28%.

II. IMPACT OF GST ON INDIAN ECONOMY

Dr. R. Vasanthagopal (2011) studied, "*GST in India: A Big Leap in the Indirect Taxation System"* and concluded that switching to GST from current indirect tax system in India will be a positive step to boost the Indian economy. GST while replacing the VAT (Value Added Tax) solved all the complexities present in the current indirect tax system. This tax structure provided the Indian economy with a strong tax system which was much needed for economic development of the country.Thus, Goods and Services Tax had a ***positive impact on the Indian economy*** which is listed as follows:

- It introduced two-tiered, i.e., One-Country-One-Tax regime system by reducing a number of indirect taxes in India.
- It subsumed all indirect taxes under a single roof at the Centre and State level.
- It not only widens the regime by covering goods and services but also makes it transparent. The customers now know how much taxes they are being charged and on what base.
- By improving the cost-competitiveness of goods and services, GST has free the manufacturing sector from cascading effect (i.e., tax on tax) of taxes.
- It hadbrought down the prices of goods and services eventually leading to an increase in demand and consumption of goods and services. Thus, this system has proved to be beneficial for the people who were fed up of paying high prices.
- A business- friendly environment has been created by increasing Tax-GDP ratio. Manufacturing costs arereduced due to lower burden of taxes on the manufacturing sector; hence prices of consumer goods have come down.

Therefore, this system of tax collection has enhanced the ease of doing business in India.

- Custom duties applicable on exports have been removed under this taxation system, therefore leading to an increased competitiveness of the nation in foreign markets by lowering the costs of transaction.
- A unified tax regime has led to corruption-free taxation system. Black money circulation system, normally followed by shopkeepers and traders, had been put to a mandatory check under GST.

In the long run, GST will add to the government revenues by extending the tax base, thus providing a boost to the Indian economy. It also served many other benefits for various Stakeholders which are enlisted as below:

- ***For Business and Industry:***

1. Easy compliance
2. Removal of cascading
3. Improved competitiveness

- ***For Centre and State Governments:***

1. Simple and easy to administer
2. Better controls on leakage
3. Consolidation of tax base
4. Higher revenue efficiency

- ***For the Consumer:***

1. Single and transparent tax proportionate to the value of goods and services
2. Reduction of prices

Nitin Kumar, thus while studying*"Goods and Service Tax- A Way Forward"* in 2014, concluded that implementation of GST in India has encouraged unbiased tax structure in India which is indifferent to geographical locations. Apart from the above mentioned positive impact, the implementation of GSTalso raised many inexplicit arguments. India adopted a dual system of GST instead of national GST system which is likely to create political as well as economic issues in the country.

Listed below are some of the ***negative impacts of Goods and Services Tax*** on the Indian economy:

- GST is a mystifying term where double tax is charged in name of a single tax.
- The Real Estate Market was affected badly by the introduction of GST. Home buying prices were increased by 8% hence leading to a reduction in the buyer's market by 12%.
- For consumers, GST did not prove to be beneficial since prices of some goods were decreased whereas; the prices of others were increased at a much higher ratio.
- Services like Telecom, Banking, Airline, etc., has now became expensive than before. Major drawback of the GST regime was the direct hike in service tax rate from 14% to 20-22%.The entire issue of telecommunication sector assumes a serious proportion when India's rural teledensity is not even 50%.

- Under the new tax structure, there will be an increase in tax rates from 14.5% to a range between 29% and 43% for drivers who do not own cars and are associated with Ola and Uber cab-leasing programs.
- E-commerce websites such as Flipkart and Amazon.in will have to collect TCS (tax collected at source) at a fixed 1% rate and pay this collection to the sellers listed on their websites. This is likely to impact prices and mke online shopping more expensive.
- If electricity is included under luxury goods in the future than it would be badly affecting the development of India.
- Hike in the liquor and petroleum products under GST have been a major contributor to inflation in India.

Therefore, all the Asian countries which have implemented Goods and Services Tax had witnessed retail inflation in the year of implementation. However, GST is a long term strategy and a positive impact shall be seen in the long run only. Being a new tax, it will take some time for the people to understand its implications.

III. CONCLUSION

To conclude the above, the implementation of GST had played an important role in the growth of Indian economy. A uniform and rational taxation system in India would lead to lesser disruptions in the market economy and more efficient distribution of resources within the industry in the near future. Apart, it would also lead to an increase in Gross Domestic Product (GDP) and exports of the country enhancing economic welfare and returns to the factors of production, i.e., land, labor and capital. Thus, Finance Minister, ArunJaitley at GST launch event in the Parliament rightly said that *"Inflation will come down, tax avoidance will be difficult, India's GDP will be benefitted and extra resources will be used for welfare of poor and weaker sections",*

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