

IMPACT ON GOODS AND SERVICES TAX AND ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT

The Good and services tax (GST) is the biggest and substantial indirect tax reform since 1947. The main idea of GST is to replace existing taxes like value-added tax, excise duty, service tax and sales tax. It will be levied on manufacture sale and consumption of goods and services. GST is expected to address the cascading effect of the existing tax structure and result in uniting the country economically. The paper highlights the background, objectives of GST and the impact of GST on Indian Economy. The paper further explores various benefits, sector wise impact analysis and challenges of GST. Finally, the paper examines and draws out a conclusion.

KEYWORDS: GST, Indian Economy, Impact.

1. 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.

The introduction of GST would mark a clear departure from the scheme of distribution of fiscal powers envisaged in the Constitution. The proposed dual GST envisages taxation of the same taxable event, i.e., supply of goods and services, simultaneously by both the Centre and the States. Therefore, both Centre and States will be empowered to levy GST across the value chain from the stage of manufacture to consumption. The credit of GST paid on inputs at every stage of value addition would be available for the discharge of GST liability on the output, thereby ensuring GST is charged only on the component of value addition at each stage. This would ensure that there is no 'tax on tax' in the country.

GST will simplify and harmonise the indirect tax regime in the country. It is expected to reduce cost of production and inflation in the economy, thereby making the Indian trade and industry more competitive, domestically as well as internationally. It is also expected that introduction of GST will foster a common or seamless Indian market and contribute significantly to the growth of the economy.

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.

2. OBJECTIVES OF STUDY

1. The impact of GST on Indian Economy.
2. The working mechanism of GST in India.

Importance of the Study

1. The study will highlight the effect of GST on Indian Economy.
2. It will prove to be of great help to a common man to understand the concept the GST.

DATA COLLECTION

This paper is a descriptive paper based on secondary data collected from different books , newspaper articles and research journals.

OBJECTIVES OF GOODS AND SERVICE TAX

GST is proposed to fulfill the following objectives:

- GST would help to eliminate the cascading effects of production and distribution cost of goods and services. This would help to increase GDP and then to economic condition of the country.
- GST would eliminate the multiplicity of indirect taxation and streamline all the indirect taxes which would be beneficial for manufacture and ultimate consumer.
- GST would be able to cover all the shortcomings of existing VAT system and hopefully serve the economy health.
- Incidence of tax falls on domestic consumption
- The efficiency and equity of system is optimized
- There should be no export of taxes across taxing jurisdiction
- The Indian market should be integrated into single common market
- It enhances the cause of co-operative federalism.

Present Indirect Tax structure in India is very complicated and complex in nature. It consists of cascading effects of tax. These add to cost of goods and services through “tax on tax” which the final consumer have to bear.

IMPACT ON INDIAN ECONOMY IN GENERAL

1. GST is a better tax system. It is more transparent, efficient, effective, self policing and less bureaucratic. GST would eliminate double taxation under the current SST. Consumer will pay fair prices for most goods and services compared to SST.
2. For businesses, they are able to reduce their cost of doing business since they are able to claim GST incurred on their business inputs. For example, under the current taxation system, manufacturers are not allowed to claim service tax on telecommunication, accounting and legal services and sales tax on indirect inputs such as office equipment and furniture. These taxes are embedded into the price of the goods sold. Hence, the cost of doing business increases. Under the GST system, any GST incurred on acquisition is claimable and is not a cost to businesses.
3. As such, Malaysian exports will become more competitive in the global market as no GST is imposed on exported goods and services. This will strengthen our export sector which would contribute to the economic growth of the country.
4. To make our exports more competitive, GST on exports will be zero-rated and the exporter can recover all the input tax incurred in the course of his business.
5. At present, imported goods are subject to import duty and sales tax unless exempted. Under GST, imported goods will still be subject to import duty but sales tax will be replaced with GST. As to whether the imported goods will be cheaper or more expensive will depend on a number of factors besides the GST rate.
6. There will be a positive impact on the economy due to the following:
 - Reduction in business costs:
 - Special schemes to alleviate cash flow problems
 - Credit offset mechanism
 - Can claim the input tax due based on the invoice produced
 - Lead to more competitive pricing
 - Speeds up economic union of India
 - Makes our export more competitive as exports are to be zero-rated
 - Increase in Gross Domestic Product
 - By merging all levies on goods and services into one, GST acquires a very simple
 - Reduce shadow economy activities
 - Uniformity in tax regime with only one or two tax rates across the supply chain as against multiple tax structure as of present.
 - It is a tool to manage the economy e.g. tourist refund scheme is proposed as a means to boost the tourism industry and tourism spending in the country, exports are zero-rated to make our goods more competitive globally.
 - Increased tax collections due to wide coverage of goods and service
 - Improvement in cost competitiveness of goods and services in the international market.

BENEFITS OF GST

GST has been envisaged as a more efficient tax system, neutral in its application and distribution ally attractive. The advantages of GST are:

- Wider tax base, necessary for lowering the tax rates and eliminating classification disputes .
- Elimination of multiplicity of taxes and their cascading effects .
- Rationalization of tax structure and simplification of compliance procedures.

- Harmonization of center and State tax administrations, which would reduce duplication and compliance costs .
- Automation of compliance procedures to reduce errors and increase efficiency .

BENEFITS ON VARIOUS STAKEHOLDERS

For Business and Industry:

- Easy Compliance
- Removal of cascading
- Improved Competitiveness

For centre and State Government

- Simple and easy to administer
- Better Controls on leakage
- Consolidation of Tax base
- Higher Revenue Efficiency

For the consumer

- Single and Transparent tax proportionate to the value of goods & Services
- Reduction of prices.
- Increase in real income and purchasing power.

GST – ANALYSIS

GST is purported 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.

IMPACT OF GST ON MANUFACTURERS, DISTRIBUTOR AND RETAILERS

GST is expected to boost competitiveness and performance in India’s manufacturing sector. Declining exports and high infrastructure spending are just some of the concerns of this sector. Multiple indirect taxes have also increased the administrative costs for manufacturers and distributors and it is being hoped that with GST in place, the compliance burden will ease and this sector will grow more strongly.

IMPACT OF GST ON SERVICE PROVIDERS

As of March 2014, there were 12, 76,861 service tax assesses in the country out of which only the top 50 paid more than 50% of the tax collected nationwide. Most of the tax burden is borne by domains such as IT services, telecommunication services, Insurance industry, business support

services, Banking and Financial services etc. These pan-India businesses already work in a unified market, and while they will see compliance burden becoming lesser there will apparently not be much change in the way they function even after GST implementation.

SECTOR-WISE IMPACT ANALYSIS**LOGISTICS**

Logistic sector is one of the pillars of economy. A well-developed logistics sector will place India on its destination at a very fast pace.

E-COM

The e-com sector in India has been growing by leaps and bounds. In many ways, GST will help the e-com sector's continued growth but the long-term effects will be particularly interesting because the model GST law specifically proposes a tax collection at source (TCS) mechanism, which e-com companies are not too happy with. The current rate of TCS is at 1% and it'll remain to be seen if it dilutes the rapid boom in this sector in any way in the future.

PHARMA

GST is creating an environment where healthcare industries will grow. There might be a concern with respect to pricing structure. The Pharma sector is hoping for a tax respite that will make affordable healthcare easier to access by all.

TELECOMMUNICATIONS

In the telecom sector, prices are expected to come down after GST. Manufacturers will save on costs through efficient management of inventory and by consolidating their warehouses. Handset manufacturers will find it easier to sell their equipment as GST will negate the need to set up state-specific entities, and transfer stocks. They will also save up on logistics costs.

TEXTILE

The Indian textile industry provides employment to a large number of skilled and unskilled workers in the country. It contributes about 10% of the total annual export, and this value is likely to increase under GST. GST would affect the cotton value chain of the textile industry which is chosen by most small medium enterprises as it currently attracts zero central excise duty (under optional route).

REAL ESTATE

The real estate sector is one of the most pivotal sectors of the Indian economy, playing an important role in employment generation in India. The probable impact of GST on the real estate sector cannot be fully assessed as it largely depends on the tax rates. However, it is a given that the sector will see substantial benefits from GST implementation, as it will bring to the industry much required transparency and accountability.

AGRICULTURE

Agricultural sector is the largest contributing sector to the overall Indian GDP. It covers around 16% of Indian GDP. One of the major issues faced by the agricultural sector is transportation of agri products across state lines all over India. It is highly probable that GST will resolve the

issue of transportation. GST may provide India with its first National Market for the agricultural goods. However, there are a lot of clarifications which need to be provided for rates for agricultural products.

FMCG

GST rate for products like hair oil, soaps and toothpaste is lowered by 500-600 bps and the market for such products is large. So the share of this sector will grow.

FREELANCERS

Freelancers work as service providers. With the introduction of GST, it has become convenient file taxes online and maintains accountability.

AUTOMOBILES

Impact of GST in this sector is neutral except for hybrid cars that are taxed higher. Tractor companies are also negatively impacted.

STARTUPS

With increased limits for registration, a DIY compliance model, tax credit on purchases, and a free flow of goods and services, the GST regime truly augurs well for the Indian startup scene. Currently, many Indian states have very different VAT laws which can be confusing for companies that have a pan-India presence, specially the e-com sector. All of this is expected to change under GST with the only sore point being the reduction in the excise limit.

BANKING, FINANCIAL SERVICES AND INSURANCE (BFSI)

Among the services provided by Banks and NBFCs, financial services such as fund based, fee-based and insurance services will see major shifts from the current scenario. Owing to the nature and volume of operations provided by banks and NBFC vis a vis lease transactions, hire purchase, related to actionable claims, fund and non-fund based services etc., GST compliance will be quite difficult to implement in these sectors.

CHALLENGES OF GST IN INDIAN CONTEXT

At Present, lots of speculations are going as to when the GST will actually be applicable in India. Looking into the political environment of India, it seems that a little more time will be required to ensure that everybody is satisfied. The states are confused as to whether the GST will hamper their revenues. Although the Central Government has assured the states about compensation in case the revenue falls down, still a little mistrust can be a severe draw back. The GST is a very good type of tax. However, for the successful implementation of the same, there are few challenges which have to face to implement GST In India. Following are some of the factors that must be kept in mind about GST:

1. Firstly, it is really required that all the states implement the GST together and that too at the same rates. Otherwise, it will be really cumbersome for businesses to comply with the provisions of the law. Further, GST will be very advantageous if the rates are same,

because in that case taxes will not be a factor in investment location decisions, and people will be able to focus on profitability.

2. For smooth functioning, it is important that the GST clearly sets out the taxable event. Presently, the CENVAT credit rules, the Point of Taxation Rules are amended/introduced for this purpose only. However, the rules should be more refined and free from ambiguity.
3. The GST is a destination based tax, not the origin one. In such circumstances, it should be clearly identifiable as to where the goods are going.

3. CONCLUSION

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also Endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. The ongoing tax reforms on moving to a goods and services tax would impact the national economy, International trade, firms and the consumers. There has been a good deal of criticism as well as appraisal of the proposed Goods and Services Tax regime. It is considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country. GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT.

It can be concluded from the above discussion that GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. It can be further concluded that GST have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. Thus, necessary steps should be taken.

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