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Good and service tax in India: Its impact on Indian economy

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Abstract

GST stands for “Goods and Services Tax” is defined as comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the Central and State Governments. GST is the only indirect tax that directly affects all the sectors of our economy. India has been trying to implement the Goods and Services Tax for last few years but due to political and state governments autonomy issues the Federal government has been unable to make it law. The Constitution Amendment Bill, 2014 for Goods and Services Tax has been passed by Lok Sabha on 6th May 2015. The Government of India seems committed to replace all the indirect taxes levied on goods and services by the Centre and States governments. Through GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable with minimum exemptions. The present research paper is an attempt to study concept of goods and service tax and its impact on Indian economy.

Keywords: GST, Indian economy, value added tax, service tax

Introduction

Goods and service tax is an indirect tax applicable throughout India which replace multiple cascading taxes levied by the central and state governments. It was introduced as constitution act 2017 following the passage of constitution 122nd amendment bill. The GST governed by a GST council and its chairman is the finance minister of India. Under GST, goods and services are taxed at the following rates, 0%, 5%, 18% and 28%. There is a special rate of 0.25% on rough precious and semi precious stones and 3% on gold. In addition a cess of 15% or other rates on the top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products.

Touted by the government to be India’s biggest tax reform in 70 years of independence, the goods and services tax was finally launched on the midnight of 30 June 2017, though the process of forming the legislation took 17 years. The launch was marked by a historic midnight (30 June-1 July 2017) session of the both houses of the parliament, but which was immediately boycotted by the opposition by staging a walk out to show their disapproval of the same.

Members of the congress boycotted the GST launch altogether. They were joined by members of the Trinamool congress, Communist Parties of India and the DMK, who reportedly found virtually no difference between existing taxation system, and therefore claimed that the government was trying to merely rebrand the current taxation system but made it worse for common people by increasing existing rates on common items and reducing rates on luxury items. Many critics pointed out that the GST would increase costs of daily goods and affect many Indians adversely, especially the middle, lower middle and poorer is a biggest d classes. GST initially proposed to replace a slew of indirect taxes with a unified tax and was therefore set to dramatically reshape the country’s 2 trillion dollar economy. However, it has been met with sharp criticism from various fronts due to the increased costs and troubles that it will causes to common citizens. The GST rates in India is between is doubled to four times that levied in other countries like Singapore.

Finally the Goods and Services Tax is a vast concept that simplifies the huge tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level.

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GST will be an indirect tax at all the stages of production to bring about harmony in the tax system. Through the Goods and Services Tax government would convert the Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden.

Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods. In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country.

Objectives of the Study

- To understand the Concept of Goods and Service Tax.
- To understand the needs of GST.
- To understand the Positives and negative impact of GST on Indian economy.
- To understand the impact of GST on different sectors.

Research Methodology

The information in the study is collected from secondary source that is from various online sources, websites, articles related to Goods and Service Tax.

Needs for GST

VAT rates and regulations differ from state to state. And it has been observed that states often resort to slashing these rates for attracting investors. This results in loss of revenue for both the central as well as state government.

On the other hand, GST brings in uniform tax laws across all the states spanning across diverse industries. Here, the taxes would be divided between the central and state government based on a predefined and pre-approved formula. In addition, it would become much easier to offer services and goods uniformly across the nation, since there won't be any additional state-levied tax.

GST rollout missed several deadlines due to disagreement among many states over certain important issues on the new tax reform. However, as per recent reports, GST is scheduled for a nation-wide rollout on 1 July 2017.

Impact of GST on Indian Economy: Like every coin has two sides; even GST have its own Positives and negative impact:

Positive impact of GST

1. The main purpose to implement GST is to abolish the cascading effect on tax. A product on which excise duty is paid can also be liable to VAT. Suppose a product X is manufactured in a factory. After it releases from factory, excise duty has to be paid to central government. When the product X is sold in same state then VAT has to be paid to the State Government. Also no credit on excise duty paid can be taken against output VAT. This is termed as cascading effect since double taxes is levied on same product.
2. GST will lead to more transparent and neutral manner to raise revenue in country.
3. GST implementation will help resolve various issues related to the taxation and logistics with regard to e-commerce business.

4. This will help in removing economic distortions and bring about development of a common national market.
5. GST is structured to simplify the current indirect system. It is a long term strategy leading to a higher output, more employment opportunities and economy boom.
6. It is beneficial for both economy and corporations. The reduced tax burden on companies will reduce production cost making exporters more competitive.
7. It will reduce transaction costs for taxpayers through simplified tax structure.
8. It will result in increased tax collections due to wider tax base and better conformity.
9. Benefit for the Centre and the States: According to experts by implementing GST India will gain \$ 15 Billion a year. This is because it will promote more exports, create more employment opportunities and boost growth.
10. Benefit for individuals and companies: In the GST system, taxes for both Centre and State will be collected at the point of sale. Both will be charge on manufacturing cost. Individuals will be benefited by this as prices are likely to come down and lower price mean more consumption, and more consumption means more production.

Negative impact of GST

1. Most of the dealers are not covered under the central excise but are only paying VAT in the state. Now all the VAT dealers will be required to pay Central Goods and Services Tax.
2. GST is known as single taxation system in India but in reality it is a dual tax in which both state and centre government collects separate tax on single transaction of sale & service. However GST has some negative aspect but at the end it will boost economy.
3. GST would impact negatively on the real estate market. It would add up the cost of new homes and reduce demand of houses.
4. With a uniform tax structure, sectors which could evade excise duties earlier will now have to pay higher taxes- this justifies the incumbent increase of the cost of some commodities.

Impact on Sectors

- **IT sector:** Today, most IT service providers have a multi-locational presence with the preferred mode of service tax compliance being on a centralized basis from a single location and IT service provider also enjoys the input service credits as well as enjoys the refunds. But under GST, service provider may be required to pay State GST or Central GST or Integrated and GST across multiple states, which is not clear yet.
- **E-Commerce:** Supply chain decisions are vital for e-commerce industry. With the implementation of GST it will resolve the supply chain issues, as the shipment and returns across the country will be done more efficiently and with lesser paperwork. As the tax standardized across all the state borders, companies will be able to execute logistics strategies in a better way. In turn, this all will benefit with quicker deliverables and make entry easy for the new entrants.
- **Tourism, Hospitality and Restaurant:** At present, the rates in these industries are higher because of existing

multiple tax rates. Through the implementation of Revenue Neutrality Rate which is more than the present tax rate, this would definitely discourage tourists and users of services and adversely affects the growth rate of sector.

- **Transport sector:** GST is a positive for transportation sector in two ways, as it reduces the logistics cost and increases the efficiency both within India and exports.
- **Land, Real Estate:** Currently, real estate is taxed in the form of stamp duty and rental transactions are covered under service tax. Construction activities and works contracts are liable to service tax. So this sector is currently under multiple tax burdens. As of now, it is not clear whether real estate/land activities are covered under GST net or not as this is a cash cow for both state and central.
- **Tobacco Products:** According to the provisions of constitution states can impose only VAT and central can impose both VAT and excise duty. Tobacco manufacturing companies presently pay VAT of about 25 percent plus excise duty. It is feared that these products may be taxed at about 40 percent in GST regime, which is definitely a huge tax burden.

Conclusion

According to my study the stakeholders of GST have a very high expectation about the positive outcome of GST. One thing is sure that the GST will bring uniformity and long-term perspective to the indirect tax structure in India. More than 150 countries have implemented GST. The government of India will also study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government will make an attempt to insulate the vast poor population of India against the inflation due to implementation of GST. Undoubtedly, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system. Until the consensus is reached, the government will resist from implementing such regime.

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