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An analysis on GST and its impact on Indian economy

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Abstract
Even in the worldwide economic crisis India showed remarkable survival in its economic system. The well insulated economic structure in India is the basis of such an amazing withstand. The proposed Goods and Services Tax (GST) is expected to be another milestone in the economic growth in India. The fundamental aim of GST is to make uniform the scattered indirect tax system in India and avoid the cascading effect in taxation. The impact going to make by GST will be a transformation in the entire tax system in India. The effect will go beyond Indian borders. The implementation of GST will reduce tax burden on manufacturers and thus encourages for the higher production. This process will increase the export of India and it will increase the total GNP. Avoidance of cascading effect empowers the manufacturers to produce to their optimum capacity and retards growth. The study intends to exhibit the detailed impact of GST implementation in Indian economic system.

Keywords: GST, Indian economy, Goods and Services Tax

Introduction

The tax system is the backbone of any developing nation. The revenue generated through tax collection is the biggest source of income for that nation. In India also revenue from tax collection is the biggest source of income for its social welfare activities. The Constitution of India, the charter of the nation clearly discussed about the tax collection and its various aspects. The prevailing tax system in India is adhered from those sections in the constitution.

The tax decisions in India are doing by the central and state governments with local governments nevertheless it doesn't meant that the government can impose any tax that it wishes to. All the taxes imposed by the government must be laws passed according to Indian constitution. An important restriction on this power is Article 265 of the Constitution which states that "No tax shall be levied or collected except by the authority of law". In India the entire tax system has divided into two, one is direct taxes and the other one is indirect taxes.

Direct taxes are those taxes which are directly paying to government. These taxes are levied directly on an entity or an individual and cannot be transferred onto anyone else. The administrative body of direct taxes is Central Board of Direct Taxes (CBDT) which is a part of the Department of Revenue. The major source of direct tax in India is coming from Income Tax. As the name implicate income tax is the tax levied on the income generated in the hands of assessee. All the individuals, various institutions and companies are liable to pay income tax as per the specified rules unless and otherwise it is stated by the act to exempt them from levying income tax. Another source of direct tax is Capital Gains Tax. It is a tax that is payable whenever the assessee receive revenue from an investment or from the sale of a property. There are two divisions for capital gain tax, short term capital gain and long term capital gain. Short term capital gain is coming under the purview of income tax whereas the tax on long term gains has a special rate, presently it is 20%.

Wealth Tax was another tax levied by the government, which was charged based on the net wealth of the assessee. Net wealth is equal to all the assets an individual owns after adjusting the cost of acquiring them. Wealth tax is no longer operational as it was abolished on 2015.

Indirect taxes are those taxes that are collected indirectly from the peoples. This tax is usually levied on goods and services. The basic difference between direct taxes and indirect taxes is also because of this basis of levying. Direct taxes are levying on various assessee but indirect taxes are instead levied on products and are collected by an intermediary, the person selling the product. These taxes are levied by adding them to the price of the service or product which tends to push the cost of the product up.

The types of indirect taxes are sales tax, Service tax, VAT, customs duty, excise duty, entertainment tax, Stamp Duty, Registration Fees and Transfer Tax etc... Sales tax is a tax that is levied on the sale of a product. This product can be either produced in India or imported the tax is levied on the final retailers. Sales tax is levied under both central and state legislations and it is the largest source of tax revenue to the state governments. Basically, all the states in the country follow their own Sales Tax Act and charge different percentages. Service tax is the tax added to services provided in India. It is applicable on companies that provide services and is collected on the periods of intervals as per the company. If the establishment is an individual service provider then the service tax is paid only once the customer pays the bills however, for companies the service tax is payable the moment the invoice is raised.

An overview of GST and Its impact on different sectors

If talk about impact of GST on manufacturers, distributor and retailers It is believe GST is expected to boost competitiveness and performance in India"s manufacturer due to tax structure. High infrastructure spending and declining export are just some of the concerns of this sector. Single tax system will decrease the administrative costs for manufacturers and distributors and this sector will grow more strongly.

If thrown glance on impact of GST on Service Providers it is observe that most of the tax burden is borne by domains such as telecommunication services, Insurance industry, business support services, Banking and Financial services, IT services etc. Introduction of GST will decrease burden The Logistic industry forms the backbone of the economy. We can fairly assume that a well-organized and mature logistics industry has the potential to shoot ahead the “Make In India” initiative of the Government of India and has positive impact on economy. Simultaneously GST will help the ecom sector’s growth but the long-term effects will be particularly interesting because the model GST law specifically proposes a tax collection at source (TCS) mechanism, If talk about Pharma industry GST is expected to benefit the pharma and healthcare industries. It boost medical tourism with simplified tax structure. *Telecommunications* sector prices are expected to come down after GST.

Manufacturers will save on costs through efficient management of inventory. Handset manufacturers will find it easier to sell their equipment as GST will negate the need of the state and will also save up on logistics costs. Textile industry generates employment to a large number of skilled and unskilled workers. It contributes about 10% of the total annual export, and this value is likely to increase under GST. GST would affect positively to the cotton value chain of the textile industry which lead economic growth. The real estate sector is also plays important role in the Indian economy, it Plays an important role in employment generation in India. The sector will see substantial benefits from GST implementation. Agricultural sector is the largest contributor of GDP. It covers 16% of GDP. The major issues faced by the agricultural sector, is transportation of agri products across state lines. It is expected that GST will resolve the issue of transportation. FMCG sector could rise significant savings in logistics and distribution costs as the GST will eliminate the need for multiple sales depots. The GST rate for this sector is expected to be around 17% which is way lesser than the 24-25% tax rate paid currently by FMCG companies. Under the current tax system, there are several taxes applicable on automobile sector like excise, VAT, sales tax, road tax, motor vehicle tax, registration duty which will be subsumed by GST.

The implementation of goods and service Tax(GST) coupled with a digitized economy ushered in by demonstration, will make India’s economy look much cleaner and bigger “said union finance minister Arun Jaitely at the vibrant Gujurat global Summit. Further he said, it is going to be a major step towards the integration of informal economy and this itself is going to increase the transactions, which are covered within the Banking system transactions and may lead to higher revenue in the future. He said “A new India Has Emerged”. It is inevitable that with the increase in level of demand, the level of supply would respond likewise. The GST council is being asked by the ministry of Commerce to keep exporters of the plantation, leather and cement out of its framework and suggested to impose lower tax on them to boost output and increase employment generation. With this the producers increase productivity and perform better in global market’s council retained its proposed definition of Agriculturist to allow a land to have been personally cultivated only if its farmed by individuals and family members of HUF and its exempted under GST. Manufacturers and traders would benefit from fewer tax filings, transparent rules and overall a sound book keeping system. Consumers would be paying less for the goods and services and lead to change their expenditure pattern and livelihood, The government would generate more revenues as revenue leaks would be plugged by GST implementation. How has GST really impacted India in current economy situation and in future. Firstly: from the viewpoint of the consumer, the consumers have pay more tax for most of the goods and services they consume. The GST implementation has a cost of compliance and tax on most of the goods attached to it. It examine that this cost of compliance will be prohibitive and slightly high for the small scale manufacturers and traders. Resulted to this pricing of goods will go high and has direct impact on cost of living of the society. Secondly: If long term effect of GST analyses it is expected that GST would not just mean a lower rate of taxes, but also minimum tax slabs imposed on. In many Countries where the Goods and Service Tax has helped in reforming the economy, apply only 2 or 3 rates. GST is designed to minimize the rate with a lower rate for essential commodities, and a higher tax rate for the luxurious commodities. Currently, in India, there are 5 slabs, but there will be a shift soon. thirdly; Impact of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated in the country and at the same time revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks and GST would be a change maker on this. Moreover, exports would grow, while FDI (Foreign Direct Investment) would also increase. The experts believes that the country would grow economically in the ease of doing business with the implementation of the most important tax reform ever in the history of the country.

Conclusion

To design an equitable tax structure, the country requires a well defined tax system. The laws must be as simple as it can in order to comply with all group of peoples in India. Introduction of GST aims in such a way to reduce the complexities prevailing in the indirect tax structure in India. A uniform tax system for a nation is the slogan of GST and this proposed mechanism will remove the effect of tax cascading in the nation. Goods and Service Tax will effectively surpass the various tax barriers persisted n the present indirect tax system. Elimination of tax credit problems, over tax burden problems, double taxation etc… will enhance the production of the country which will ultimately led to increased GDP. The experts are expecting a growth of 1.5% - 2% in GDP, once the GST is implemented in India.

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