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## The possible impact of biggest tax reform (GST) in India

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### Abstract

The journey of Goods and Services Tax (GST) began in the year 2000 and it took 17 years to evolve this law. GST law finally came into force on 1<sup>st</sup> day of July 2017 and named as 'ONE NATION ONE TAX'. GST is known as a single domestic indirect law levied on the supply of goods and services in entire country. This law in India is a comprehensive, multistage and destined based law which replaced many other taxes such as the VAT, excise duty, custom duty, services tax, etc. This paper aims to present the existing status of GST law in India and also examines the impact of its implementation on different sectors of economy.

**Keywords:** GST in India, impact on indian economy, indirect tax, new tax reform, goods and services tax

### Introduction

Goods and Services Tax (GST) is a singular and efficient system of Indirect tax for the whole nation, which made the country India a unified common market. Since 1947, GST is one of the biggest tax reforms which revolutionized the fiscal system of India. GST was first introduced in 1954 in France and thereafter it was adopted by more than 150 countries across the globe. GST is a transparent comprehensive tax levied on the supply of goods and services right from the manufacturer to the final consumer. In India, GST was implemented on 1<sup>st</sup> of July, 2017 and replaced the existing CENVAT and state VAT. Before the introduction of GST, we have so many indirect taxes namely excise tax, service tax, custom tax, VAT, entry tax, luxury tax, lottery tax, etc. In order to simplify the existing tax system, the central government under the leadership of Finance Minister Late. Arun Jaitley and Prime Minister Narendra Modi in 2014-2019 regime, came out with the concept of GST "ONE NATION ONE TAX".

### Objectives of the Study

The main objectives of the study are:

1. To look over the chronological order of events in the application of GST implemented by the Indian government.
2. To enquire the necessity of the enactment of Goods and Services Tax in India.
3. To evaluate the probable impact of GST on different sectors of Indian economy. In this regard we also try to examine the growth of different sectors during GST regime.
4. To outline the structure of new GST in India.
5. To recommend the measures in improving the functionality on the basis of conclusion drawn.

### Period of the study

For the collection of secondary data on Goods and Services Tax in India year 2013-14 to 2019-2020 has taken as the study period.

### Database and Methodology

The significance of any empirical studies is generally examined and valued by its data base and methodology.

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The whole content of this article is based on secondary data which have been collected from various recognised official publications of the Government of India, respective journals, selected articles, annual reports, newspapers, magazines, print and social media covering wide collection of academic literature on Goods and Services tax. The research design is of descriptive nature. Available secondary data was extensively used for the study and comprehensively analysed. No hypothesis is postulated for testing.

### Literature Review

The author, Sindhura (2018) <sup>[1]</sup>, examined the impact of GST tax reform on common man of India. The study also reflect the experiences which was faced by other countries in the initial stages of GST implementation. The study concluded that GST has both positive and negative impact on common man and efforts has to be taken to educate the benefits and the role of GST in increasing the economic state of the country.

The study conducted by Shubham, focused on the impact of GST on different industries namely Real estate, textile, pharmaceuticals, logistics and warehouse. Brief comparisons was made on the former and new regime of GST. Further, his study concluded that this new structure of GST will have a positive impact on mentioned industries in long term.

Namita (2018) <sup>[3]</sup>, in her study aimed to know the impact of GST on different sectors of Indian economy. Her study concluded that the adoption of GST will help in free movement of Goods and Services among states and also leads to eliminate economic distortions in tax system.

Lourdunathan *et al.* (2016) <sup>[4]</sup> in their study highlights the prospectus and challenges in the implementation of GST in India. The study also includes inexplicit opinions among manufacturers, society and traders in regard to GST. The paper concluded that government should take necessary steps to educate the society and traders.

Annya *et al.* (2019), in their paper briefly study the concept of GST. Their study also highlights the challenges in the application of GST in India. The study concluded that GST will simplify and improve the tax collection system, boost the Indian economy development and also break all the obstacles between the central and state government.

### Significance of The Study

The study is very important to appraise the pecuniary achievement of the central and state government in India. The outcomes of the study will be helpful to the policy maker in developing the activities of GST in India.

### Chronological Order of Events In The Application of GST

2006 – First time the concept of GST was introduced and an announcement was made with the intent to implement GST by 1<sup>st</sup> April 2010.

2009 - In the month of November, First Discussion Paper (FDP) was released by EC (Expert committee) on which various comment were provided by Government of India.

2010 – In June, Three sub-working groups constituted by Government of India.

2011 – In March, Constitution Bill was introduced in Parliament.

2012 – A committee on GST design constituted by EC.

2013 – The constitution of three committees:

- (a) Dual control, threshold limits and exemptions in GST
  - (b) IGST and GST on Imports
  - (c) RNRs for SGST & CGST and place of supply rules.
- 2013 – In March, GSTN incorporated as Section 25 Company.

2013 – In June, committee constituted by EC to draft model GST Law.

2013 – In August, a report was submitted by standing committee on finance.

2014 – In April, committee constituted to examine business processes under GST.

2016 - 122nd constitutional amendment bill introduced in parliament in December.

2017 – On 1<sup>st</sup> July GST was implemented.

### Structure of new GST in India

The central government has constituted a GST council in which the chairperson i.e. Union Finance Minister, Union Revenue Minister and State Finance Ministers as members as whole decided the various rates applicable to different categories of goods and services through negotiations. Fifty percent of the total GST charged is the central GST and the rest fifty percent is the state GST. Besides these two, there is interstate GST as well. There are three taxes applicable under this GST system: CGST, SGST and IGST.

### CGST

CGST is a tax raised by the Central government on Intra state supplies of goods and services and will be governed by the CGST Act. CGST include following taxes –

- Central Excise Duty
- Service tax
- Countervailing duties
- Additional excise duty
- Surcharge
- Education cess

### SGST

SGST is a tax raised by the State government on Intra state supplies of goods and services and will be governed by the SGST Act. SGST include following taxes –

- Sales / VAT tax
- Purchase tax
- Entertainment tax
- Lottery tax
- Luxury tax

### IGST

IGST will be levied on any supply of goods and services in both cases of import into India and export from India. This tax is designed to ensure uninterrupted flow of input tax credit from one state to another. Therefore, if inter-state sales is made then the seller will charge IGST in place of CGST + SGST.

For example: A dealer in West Bengal sells goods to its dealer in Jharkhand worth Rs. 10, 00,000. The GST rate is 18% which comprised of CGST rate 9% and SGST rate 9%. In this case the trade person has to charge Rs. 1,80,000 as IGST.

### Impact of GST on Different Sectors of Indian Economy Health Care Sector

One of the fastest growing sector in the Indian economy is health care. This sector have lots of potential both in terms

of revenue and employment. New proposed GST is expected to increase the government revenue and the increase in revenue will improve investment in health care sector. Health care is a broad term that mainly includes pharmacy, medical devices & equipment's, medical insurance and other components of medical care.

The previous burden of taxes on medical devices and equipment's was over 13% including all the taxes. Under new GST reform, it is proposed to be taxed at 12%. This 1% will give boost to the industry in the near future and the consumers will be benefitted in terms of their affordability. Later on, after so much debate considering the sector, the government decides to reduce to 5%.

For pharmaceutical industries, GST will provide hassle free business environment. The burden of multiple tax will slow down the business and for the customers the cost of drugs will fall down.

The GST rate levied on the medical insurance sector is 18% as against previous rate 15%. It indicates that the health insurance premiums are definitely going to increase.

In general, GST is going to affect all the components of health care in different ways. The impact of GST on the health care sector will provide transparency and certainty in the Indian tax system. The industry experts are confident that new GST era will bring necessary strategic change and also create a positive environment by minimising the obstacles in the growth of health care sector.

### Real Estate Sector

The major revenue generating sectors for the Indian economy is Real estate sector. Real estate is the largest sector across all the sectors of our economy. Real estate accounts for 6-8% of GDP and is considered as the most important sector of the Indian economy. The country stands to witness some significant changes in this sector with the implementation of GST. The previous burden of taxes on real estate was over 12%, is now taxed at the rate of 5%. The current GST rates in the real estate sector are:

1. On under construction properties – GST 5% without ITC benefits.
2. On affordable houses – GST 1% without ITC benefits.
3. On commercial properties – GST 12% with ITC benefits.

The overall impact of GST on real estate sector can only be accessed over time. It will help to boost this sector and accelerate growth. Also with the adoption of GST, transparency and accountability in this sector have increased.

### Education Sector

Education is one of the major sector for any economy and should be the first priority of government. The education sector benefits from a lot of exemptions and are likely to continue under GST. Tax paid on inputs amounts to 6-7%. Educational institute is divided into following parts:

1. Services rendered by education institute (fully exempted).
2. Rendering services to education institute – preschool to higher secondary (no GST).
3. Apart from above education system (GST applicable).
  - There are many coaching center giving tuitions and giving their students transportation services via outsourcing, then GST will be applicable.

- If there is catering services rendering by someone, GST will be applicable.
- If mid-day meal is provided in schools from pre nursery to higher education, then GST will not be applicable.
- If IIM rendering the services which is of two year full time residential course or fellow programme or five year integrated course. Then no GST will be applicable.

### Media and Entertainment Sector

Entertainment tax get subsumed under GST. Any local body tax or state tax will be available as a credit, reducing overall costs. GST will eliminate any dual tax levies of service tax and VAT on transactions. Media companies will have to pay additional local body taxes over and above GST. Companies see a rise in compliance costs with the filing of multiple returns across every state they operate in. Under GST, Compliance and accounting for advertising revenue could prove to be the biggest challenge for media and entertainment companies.

### Information Technology Sector

There is considerable litigation on whether software is a 'good' or 'service' and the taxability around it. Software developers are centrally registered. Under GST they will have to register in all locations where their software is used. To compute tax liability for B2B and B2C transactions, under this reform will be very challenging. Under GST, exemptions may be moved to refund mechanism. This will impact working capital requirements and may also raise effective tax rate. Before GST, VAT on software is 5%. If there is no preferential rate for software under GST then the tax burden will be higher.

### Measures Recommendations

Based on the study, a set of policy prescriptions are offered in order to make the GST system more effective in India. To avoid its deficiency and for the betterment of its functions, following few recommendations can be made:

1. GST is quite different indirect tax regime in the country. It requires the administrative officers to be trained properly in terms of concept, procedure and legislation. Radical change in their mind set and attitudes towards tax payers should be made.
2. The government should take necessary actions to use an effective tool for fiscal policy management.
3. A robust and comprehensive IT structure is needed to support the successful implementation of GST Act in India.
4. Government should take appropriate steps for the collection of GST from all assesses who fall under the purview of GST rules.
5. There is a need for continuous awareness and publicity among the common masses.

### Conclusion

There is no doubt that with the introduction of GST, India is going to experience the biggest tax reforms. GST is a bold step and provide a revolutionary tax structure. This tax system is expected to bring more transparency and certainty. Distribution of revenue between the central and state government would become smooth. There may be some flaws, obstacles and inconsistencies but as we move forward we can overcome them. The government should take necessary steps to educate people about this new tax reform.

Over time, it is hoped that GST will be fruitful and more effective for the socio economic development of India.

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