

Goods And Service Tax (GST) In India And Its Impact on Indian Economy

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Abstract

In this paper, an attempt has been made to study the impact of Goods and Services Tax (GST) on Indian Economy. GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at the national level. The Government GST regime seeks to replace excise duty, import duties, VAT and service tax regulations, along with other cess and surcharges, with three separate legislations namely CGST, SGST and IGST. GST would be applicable to all transactions of goods and services, and it is to be paid to the accounts of the Centre and the States separately. The biggest advantage of GST is economic unification of India. It has potential to end the longstanding distortions arising out of the differential treatment of the manufacturing and service sectors. The GST reform is expected to bring in a lot of changes in Indian economy. The present structure of Indirect Taxes is very complex in India. There are so many types of taxes that are levied by the Central and State Governments on Goods & Services. This paper studies the impact of GST on Indian Economy.

Key Words

Goods and Services Tax, Import Duty, Excise Duty, Economic Growth

INTRODUCTION

GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at the national level. The Government GST regime seeks to replace excise duty, import duties, VAT and service tax regulations, along with other cess and surcharges, with three separate legislations namely CGST (Central GST,

collected by the central government), SGST (State GST, collected by the state government) and IGST (Integrated GST, collected by the central government). GST would be applicable to all transactions of goods and services, and it is to be paid to the accounts of the Centre and the States separately. The biggest advantage of GST is economic unification of India. It has potential to end the long standing distortions arising out of the differential treatment of the manufacturing and service sectors. The GST reform is expected to bring in a lot of changes in Indian economy. The present structure of Indirect Taxes is very complex in India. There are so many types of taxes that are levied by the Central and State Governments on Goods & Services. This paper studies the impact of GST on Indian Economy.

Given the passage of the Constitution Amendment Bill for Goods and Services Tax (GST) in the Rajya Sabha on 3 August 2016, the Government of India seems committed to replace all the indirect taxes levied on goods and services by the Centre and States and implement GST by April 2017. With GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions.

GST : THE GAME CHANGER

GST will be a game changing reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting leading to a complete overhaul of the current indirect tax system.

GST will have a far reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services; supply chain optimization; IT, accounting and tax compliance systems.

OBJECTIVES OF THE STUDY

- To study the various aspects of Goods and Services Tax system in India.
- To analyze the Impact of Goods and Services Tax (GST) on Indian Economy.
- To understand the Structure of Goods and Services Tax in India

REVIEW OF LITERATURE

Girish Garg (2014), studied "Basic Concepts and Features of Goods and Services Tax in India", and found that GST is the most logical step towards the comprehensive indirect tax reform in our country since independence. GST will

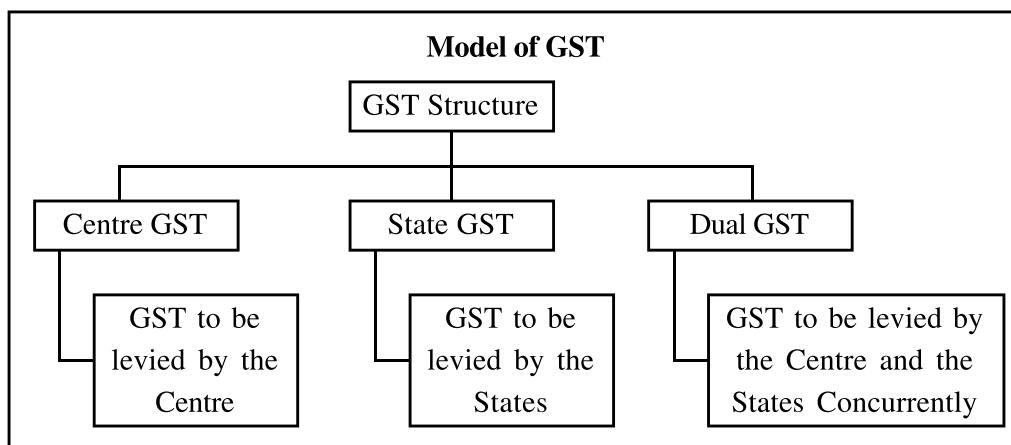
create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

Dr. R. Vasanthagopal (2011), studied "GST in India : A Big Leap in the Indirect Taxation System", and found that the positive impacts are dependent on a neutral and rational design of the GST, balancing the conflicting interests of various stakeholders, full political commitment for a fundamental tax reform with a constitutional amendment, the switchover to a flawless? GST would be a big leap in the indirect taxation system and also give a new impetus to India's economic change. It is also noted that, buoyed by the success of GST, more than 140 countries have introduced GST in some form or the other and is fast becoming the preferred form of indirect tax in the Asia Pacific Region.

RESEARCH METHODOLOGY

This study is intended to identify the impact of GST on Indian economy. The study is descriptive in nature, based on secondary data. The study focuses on extensive study of secondary data collected from books, national and international journals, government reports, publications from various websites which focused on various aspects of Goods and Services Tax and Commercial Taxes Department.

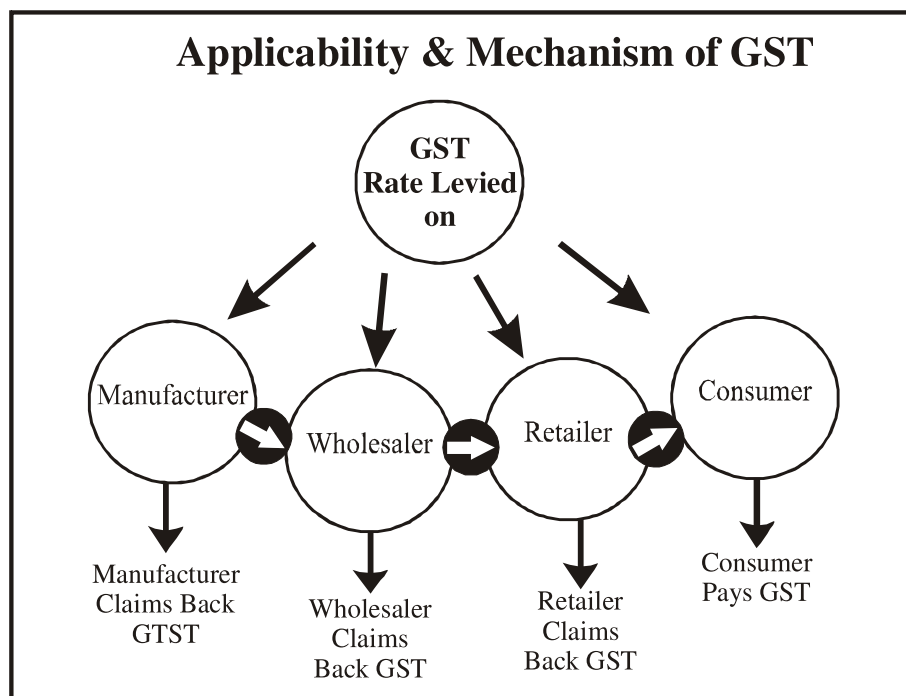
WORKING OF GST AND ITS IMPACT ON ECONOMY



The present structure of Indirect Taxes is very complex in India. There are so many types of taxes that are levied by the Central and State Governments on

Goods and Services. We have to pay 'Entertainment Tax' for watching a movie. We have to pay Value Added Tax (VAT) on purchasing goods & services. And there are Excise Duties, Import Duties, Luxury Tax, Central Sales Tax, Service Tax.

GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain. GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism. The GST is an indirect tax which means that the tax is passed on till the last stage wherein it is the customer of the goods and services who bears the tax. This is the case even today for all indirect taxes but the difference under the GST is that with streamlining of the multiple taxes the final cost to the customer will come out to be lower on the elimination of double charging in the system.



Economic Union of India

The debate about India as one Republic Union versus a Federation of States will be put to rest. Goods can easily move across the country with diffused state boundaries and that will encourage businesses to focus on pan-India operations.

Simpler Tax Structure

By merging all levies on goods and services into one, GST acquires a very

simple and transparent character with less paperwork and reduction in accounting complexities. A simple taxation regime can make the manufacturing sector more competitive and save both money and time.

Uniform Tax Regime

With only one or two tax rates across the supply chain as against multiple tax structure at present, state specific advantages/disadvantages are gone. This provides a fair play ground for all stakeholders and focus can be brought in to efficiency rather than vantage points.

Greater Tax Revenues

A simpler tax structure can bring about greater compliance, thus increasing the number of tax payers and in turn tax revenues for the government. By removing cascading effect, layers of taxes and simplifying structures, the GST would encourage compliance, which is also expected to widen the tax base.

Competitive Pricing

A cursory look at the retail price of any product manufactured in India reveals that the total tax component is roughly 25-30% of the cost of the product. GST will effectively mean that the tax paid by the final consumer will come down in most cases and will help in boosting consumption, which is again beneficial to companies.

Push to Exports

With fall in production cost in domestic market, the competitiveness of Indian goods in international market will increase. This bodes well for exporters, who compete with global manufacturers and operate on very different cost structures.

CONCLUSION

Goods and Services Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and services at the national level. One of the biggest taxation reforms in India, the GST is all set to integrate state economies and boost overall economic growth. India is a centralized democratic country and therefore, the GST will be implemented parallel by the central and state governments as CGST and SGST respectively. Goods and Services Tax, if implemented, will replace most of the existing indirect taxes. GST is also different in the way it is levied – at the final point of consumption and not at the manufacturing stage. Once GST is implemented, all these taxes would cease to exist. There would be only one tax, that too at the national level, monitored by the central

government. GST is also different in the way it is levied - at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST, there would be only one tax rate for both goods and services. The Goods and Services Tax will indeed be a further significant improvement towards comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector.

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