

## ECONOMIC CONSEQUENCES OF GST IN INDIA

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### ABSTRACT

The research paper focuses on the economic consequences of Goods and Services Tax (GST) personified newly in the Indian Tax structure. The paper also discusses the anticipated barriers and future predictions for GST. The Goods and Services Tax (GST) is a vast notion that simplifies the giant tax structure by supporting and augmenting 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. India's historic and bold move towards integrated tax structure is viewed by most economists as an answer to regressive indirect tax structure. It is a comprehensive tax system that will subsume all indirect taxes of states and central governments and unified economy into a seamless national market.

An important feature of GST is that products and services are equalized and are taxed at a fixed rate until customers access it within the supply chain. Therefore, tax reforms give equal rights to large and small businesses and taxpayers. Another important feature of India's GST rollout is that it is dual-based. In other words, both central and multiple government agencies will release GST separately. The central government will charge CGST and the state will charge SGST respectively. However, the tax, tax and taxation standards are the same. This is necessary in view of the federal structure of the government if governments are free to manage their own taxes at two levels. GST would help in lesser corruption and increased tax revenue. It contributes towards a better and improved economy with single taxation. The system will make it easier to identify the tax defaulters.

In India, GST is imposed on goods and services income. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. It is believed that GST would put India's indirect tax structure at par with more than 140 countries and would be productive for all the sectors. Implementation of such reforms does face surmountable challenges; however, this is expected to bring in benefits in the form of higher GDP and also transparency in the tax system. The GST would be imposed on the value – addition and thus would leave lesser scope for tax evasion.

**Keywords:** GST, Tax and Services, Economic Growth, Cascading Effects, Tax Evasion

## **INTRODUCTION**

GST also known as the Goods and Services Tax is defined as the enormous indirect tax structure considered to support and improves the economic development of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was proposed by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Lok Sabha on 6th May 2015 but is yet to be approved by the Rajya Sabha. However, there is an enormous type and cry against its implementation. It would be interesting to understand why this proposed GST regime may impede the development and progress of the country. The Goods and Services Tax (GST) is a vast notion that simplifies the giant tax structure by supporting and augmenting 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 (The Economic Times, 2009). 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 (GST India, 2015).

## **OBJECTIVE OF THE STUDY**

1. To identify the economic consequences of GST in India.
2. To find out the anticipated barriers and future predictions for GST

## **RESEARCH METHODOLOGY**

The paper is based on secondary sources of data, which have been obtained from various GST implementation discussion papers, published article in journals, web articles (internet sources), past studies and newspaper etc. With the help of these secondary sources, attempt has been made to find the obstacles coming on the way of GST and looking for future opportunities of it in India.

## **GST IN INDIA**

In India, GST was first time introduced on 28th February 2006 in the Budget Speech of the year 2006-07 by Finance Minister Sh. P. Chidambaram. A message was left by the Finance Minister in the Union Budget 2007-08 that GST will be introduced with effect from 1st April 2010. Central and State Governments will be work together to prepare a roadmap for the introduction of GST in India. They planned to introduce GST or “replacing the previous VAT and Service Tax” on 1st April 2010, but some of the States were not ready to implement the GST. After that on 1st April 2012, again Government was going to introduce GST, but due to some management and infrastructure problems it was not introduced. Finance Minister Arun Jaitley introduced the 122nd Constitution Amendment Bill in Parliament and intends to implement GST reform by 1st April 2016.

### ***An analysis on GST and its impact on Indian Economy***

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 Jaitley at the vibrant Gujarat 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 paid 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 examines 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. 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.

## **ECONOMIC CONSEQUENCES OF GST IN INDIA**

- It would help in lesser corruption and increased tax revenue.
- It contributes towards a better and improved economy with single taxation. The system will make it easier to identify the tax defaulters.
- The registration of GST will create a unified market. This will help in the facilitation of seamless movement of goods to different states of India and reduce the transaction cost of businesses.
- Tax evasion will be reduced considerably with lower tax cost which will result in better investments in manufacturing industry.
- One tax instead of so many different taxes will make tax compliance and tax monitoring easier.
- Increased investments in manufacturing sectors and reduced cost will result in increased volume of exports.
- Distribution of burden of tax between goods and service industries.
- The advantage of GST is that it will replace Indirect Taxes which are levied by Central and State Government.
- The GST structure will present a transparent system which will be helpful to reduce the burden of cascading effect and it will also improve the tax compliances and tax collection.
- GST will prove the uniformity of taxes in all over the country.
- Under GST regime the burden of taxation will be allocated fairly between manufacturing and services via lower tax rates resulting in increased tax base and minimized exemptions.
- It is anticipated to help in establishing an effective and transparent tax administration.
- It is expected to remove the cascading effects of taxes and help in establishing of common national market.

## **ANTICIPATED BARRIERS FOR GST**

- Goods and services tax is a transitional tax structure which would encompass wide variety of taxes into one. It is perceived to be a reformative tax structure unifying the market and expected to bring substantial increase in countries overall productivity through free movement of goods and services.
- Though transitional phase also faces roadblocks as well as lack of clarity till it reaches final implementation. There are few blind spots which need to be uncovered so that the benefits trickle down to every sector of the economy. One such is the dual structure. A strong mechanism is needed to monitor the tax levied on the origin state till the destination stage. It is essential that the tax payer should feel burden with zealous taxes and his cash flow is uninterrupted.
- In the present tax structure central excise is a tax on manufacturing and therefore is not reflected on invoices issues to final consumers. IN the GST regime, the entire tax liability would be reflected on the invoices which might create an impression of extra taxes or more taxes to be paid by the final consumers.
- The most evident issue is the exemptions of key sectors such as electricity, diesel, petrol, crude oil and real estate. These exemptions may not be able to reduce the cascading effect of indirect taxes as expected.
- The lower house of Indian parliament recently passed four GST legislations. The Bill proposes central GST at 20% and the Integrated GST rate at 40%.It is believed that the states would cap the State GST rate 20%.These rates could turn out to be counterproductive.
- There are panels expected to overcome these few hitches, however only time and effective implementation would help the nation to reap the benefits of unifying tax structure.

## **PREDICTIONS OF GST**

### **a) India and GST**

India has federal structure. Union Government has planned for a dual GST model where Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) will be levied on the Taxable value of goods plus services.

### **b) Advantage to industry**

The GST is expected to be complimentary to the user of the supply chain of goods and services which include from beginning to ending the whole industry, Agriculture and trade via a comprehensive Tax regime. This is expected to generate the higher amount of revenue for the industry as well as business prospects as Tax burden goes down.

### **c) Profit to exports**

The cost of manufactured goods and services will decrease with the comprehensive reduction of input cost of major Central and State Taxes in GST. This will create a competitive environment of goods and services of India, in the international market.

### **d) Use to Consumer**

The management of GST should be transparent and rationalized so that consumers will get benefits from lowering the Tax burden on goods and services consumed by them.

### **e) Decrease in Cost**

As per the Government report of India “Task Force on Goods and Services Tax: Thirteenth Finance Commission” 2009, shows that the implementation of the GST will result in a sharp decline in the prices of cotton textiles (by 6.44 percent), wool, silk & synthetic fibre textiles (by 11.4 percent), and textile products including wearing apparel (by 17.45 percent). To the extent, the contribution of expenditure on clothing in the total overheads on consumption is relatively higher than in the case of the rich, the poor will be benefited more from deduction in prices. To some extent it will also help to solve the burning question poverty. Implementation of GST will increase the actual returns of land, labour and capital.

## **IMPACT OF GST ON INDIAN ECONOMY**

To remove cascading effect of taxes and also to provide for a common national market for goods and services, the Government of India proposed for amendments to introduce the goods and services tax for conferring concurrent taxing powers on the union as well as states including union territory with legislature to make laws for levying goods and services tax on every transactions. GST is an indirect tax has introduced on 1 July 2017 in India and was applicable throughout India which replaced multiple cascading taxes levied both by central and state governments. The GST is governed by a GST Council. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12%, 18% and 28% and there is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. Further in addition a Cess of 15% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. Expert viewed it as biggest tax reform in India founded on the notion of “one nation, one market, one tax”.

The GST rollout has converted India into a unified market of 1.3 billion citizens. The rollout has a positive hope of India’s fiscal reform program regaining momentum and widening the economy of the nation. The idea behind implementing GST in the country in 29 states and 7 Union Territories is that it would offer a win-win situation for every citizen. The entire taxation base will be shared between the assessment mechanism of the center and the states who would get to collect tax on the economic activities taking place in Indian territorial waters. At the ninth GST council meeting the center made significant concessions to bring states, including the defiant ones. The administrative decisions will be as follows. The state will administer 90 percent of the tax players, including service providers with annual turnover up to rupees 1.5 crore with scrutiny, and audit powers and the balanced 10 Percent will be controlled by the Centre. Tax players above that threshold turnover, including those pay integrated GST will be equally shared between the center and state, and this will lead to significant shifting of the tax players base from center to state.



## **CONCLUSION**

India's historic and bold move towards integrated tax structure is viewed by most economists as an answer to regressive indirect tax structure. It is believed that GST would put India's indirect tax structure at par with more than 140 countries and would be productive for all the sectors. Implementation of such reforms does face surmountable challenges; however, this is expected to bring in benefits in the form of higher GDP and also transparency in the tax system. The GST would be imposed on the value –addition and thus would leave lesser scope for tax evasion.

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