

## A STUDY OF IMPACT OF GST ON INDIAN ECONOMY

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### ABSTRACT

In present scenario in India, the various taxes direct and indirect taxes will be burden on us. To overcome form all this taxation the central government has decided to make one tax system. GST is one of the most critical tax reforms in India which has been long awaiting decision the state and central governments introduced a comprehensive tax system in national market. It is expected to remove the burden of existing indirect tax system and play a vital role in growth of India. This paper presents and shows the impact of GST after its implementation the difference between present taxes and GST Taxes and the benefits and challenges of GST after implementation.

**Keywords:** Central, State, Dual, GST, Indirect Tax, Direct Tax, Implementation.

### 1. INTRODUCTION

The word tax is derived from the Latin word “taxare” meaning “to estimate”. “A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority” and is any contribution imposed by government whether under the name of levy, tribute, impost, duty, custom, excise, subsidy, supply, or other.”

The first known system of taxation was in Ancient Egypt around 3000 BC - 2800 BC in the first empire of the Old Kingdom. Records from that time showed that the pharaoh were collecting tax revenues from the people. Other records are granary receipts on limestone flakes and papyrus. Early taxation is also described in the Bible. The crop comes in, gives a fifth of it to Pharaoh. The other four-fifths portions may keep as seed for the fields and as food households and children. The people of Egypt divided their crop, providing a portion to the Pharaoh. A share of the crop was the tax.

In India, the tradition of taxation has been in force from ancient times. It finds its references in many ancient books like 'Manu Smriti' and 'Arthashastra'. The Islamic rulers imposed Jizya. It was later on abolished by Akbar. However, Aurangzeb, the last prominent Mughal Emperor, levied Jizya on his mostly Hindu subjects in 1679. Reasons for this are cited to be financial stringency and personal inclination on the part of the emperor, and a petition by the Ulema.

The period of British rule in India witnessed some remarkable change in the whole taxation system of India. Although, it was highly in favor of the British government and its exchequer but it incorporated modern and scientific method of taxation tools and systems. In 1922, the country witnessed a paradigm shift in the overall Indian taxation system. Setting up of administrative system and taxation system was first done by the Britishers. Broadly, there are two types of Taxes viz. Direct and Indirect taxes. Taxes in India are levied by the Central Government and the State Governments. Other minor taxes are also levied by the local authorities such as Municipality or Local Council or Grampanchayat.

In India various taxes are levied by the Central Government body and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. There are various levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State.

Some of the important Central taxes, eg. CENVAT, Customs Duty, Service Tax etc. Some of the important State level taxes, eg. State Sales Tax, CST, Works Contract Act, Entry tax, other local levies etc.

The taxes on the sales of goods were levied in situation of the respective Sales Tax enactments and the 'entry of goods' was subject to tax under the respective State Entry Tax enactments and this development prevailed till the improvement process set in upon which these levies were replaced by VAT. The levy of tax on provisioning of services was introduced for the first time in 1994 and has been subjected to persistent vigorous legal challenges. From long time it is proved in India that the transformation to VAT did not solve the issue of non-creditable duties and the consequent cascading effect requiring further reform in the structure in the area and consequently GST demand arose. Despite of existence of multiple taxes like Excise, Customs, Education Cess, Surchage, VAT, Service Tax etc. GDP of India is much lower than GDP of countries like USA, China and Japan. India has miles to go to achieve this level.

The reference of GST was first made in the Indian Budget in 2006-07 by the then Finance Minister Mr. P. Chidambaram as a single Centralized Indirect tax. The Bill was introduced on December 19, 2014 and passed on May 6, 2015 in the Lok Sabha and Passed in Rajya Sabha on 3rd August 2016. The Government wants to implement GST Bill From 1st April 2017. Clause 366(12A) of the Constitution Bill defines GST as “goods and services tax” means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. So GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level.

## 2. REVIEW OF LITERATURE

Chaurasia *et. al.*, (2016) Studied, “Role of Goods and Services Tax in the growth of Indian economy” and concluded that in overall GST will be helpful for the development of Indian economy and this will also help in improving the Gross Domestic Products of the country more than two percent.

Sehrawat and Dhanda (2015) studied, “GST in India: A Key Tax Reform” and concluded that due to dis-silent environment of India economy, it is demand of time to implement GST.

Pinki *et. al.*, (2014) studied, “Goods and Service Tax-Panacea For Indirect Tax System in India” and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Kumar (2014) studied, “Goods and Service Tax - A way forward” and concluded that after implementation of GST in India many indirect tax system will be finished and there will be only one tax i.e. GST which is expected to encourage unbiased tax structure.

Anushuya and Narwal (2014) studied, “Application of CGE Modals In GST” and concluded that both GST & CGE are very popular all over the world but GST is a powerful concept in the field of indirect taxes.

## 3. NEED OF THE STUDY

This study will assist us to examine the impact of GST after its implementation in India, it will show the gap between present various indirect taxes and only one GST, & also the study will show benefits and challenges which GST may face after implementation.

## 4. RESEARCH PROBLEM

The concept of Goods and Services Tax (GST) is the biggest tax reform in decades throughout the world, but India has been taking small steps to meet its target of rolling out goods & services tax (GST) on July 1, 2017. The role of research intends to focus on understanding concept of goods and services tax and its impact on Indian economy.

## 5. OBJECTIVES OF THE STUDY

- 1). To study the concept of Goods and Services Tax (GST) and its impact on Indian Economy,
- 2). To know impact of GST after its implementation.
- 3). To find out difference between present indirect taxes and GST.

4) To know the advantages and challenges of GST in Indian situation.

## 6. RESEARCH METHODOLOGY

The study focuses on wide study of secondary data collected from various books, National & international Journals, published government reports, publications from various websites which focused on various aspects and important of Goods and Service tax.

## 7. Need for GST Model in India

### The supporting reasons to adopt GST

1. Present tax system allows is diversity of taxes, the introduction of GST is likely to unique it.
2. Many areas of Services which are untaxed. After the introduction of GST they will also get covered.
3. GST may help to avoid confusions caused by present complex tax structure and will help in development of a common national market.
4. Excise, VAT, CST have the cascading effects of taxes. Therefore, there will be end up in paying tax on tax. GST will replace existing all present taxes.
5. GST will lead to credit availability on throughway purchases and reduction in obedience requirements.
6. Applying of GST will do more than simply redistribute the tax burden from one sector or Group in the economy to another.
7. Achieves, uniformity of taxes across the territory, regardless of place of manufacture or distribution.
8. Provides, greater certainty and transparency of taxes.
9. Ensures tax compliance across the country
10. GST will avoid double taxation to some extent.
11. The effective implementation of GST makes sure that India provides a tax system that is almost similar to the rest of world where GST implemented.
12. GST will also improve the International level cost competition of various native Goods and Services.
13. GST will provide impartial tax structure that is neutral to business processes and geographical locations within India.
14. If the GST is implemented in the true spirit, it will have many positives effects for the stakeholders and will lead to a better friendly tax environment.

## 8. IMPACT OF GST ON INDIAN ECONOMY

It is expected that the Goods and Service Tax (GST) bill have wide ranging ramifications for the complicated present taxation system in India. It is likely to improve the present taxation system to GDP ratio and also inhibit inflation. However, the transformation is likely to benefit the manufacturing sector but it is difficult for the different services sector. Though there are expectations that the GDP growth is likely to go up by 1 to 2 %, the results can only be analysed after the GST implementation. The response is mixed from countries around the world. While the New Zealand economy had a higher GDP growth, it was lower in case of Canada, Australia and Thailand after the GST was implemented. The one per cent tax that has been proposed as a sop to appease the States for compensating their loss of revenue from the inter-state CST is likely to play a spoil sport. It is probable that it may affect the GDP adversely. The Congress party is already opposing the 1 per cent tax. The GS Tax rate is expected to be around 5-28% and can be assumed as a tax neutral rate. This tax rate is not likely to give any incremental tax revenue to the government. The GST rate will be benefited for the various manufacturing sector where the tax rate is around 24% at present. The major manufacturing sectors these will benefit the most are FMCG, Auto, Cement and other. This is because they are currently reeling under 24 to 38 per cent tax. The sector, which is going to be adversely affected in the services sector. Already there has been a hike from 12 to 14% from the 1st of June this year. Another 4 per cent increase will break their backs. The uniformity in the taxation rate is fine but it should not result in disparity for the goods and services sectors. Nobody has expected that the implications it will have in the services sector if the government moots a higher GS Tax rate like 20% or 28%. The higher GST rate will definitely boost the tax to GDP ratio, while giving financial muscle to the government for increasing the capital expenditure. This is likely to spur growth in the economy. There is definitely a silver lining to the whole exercise. The unorganized sectors which enjoy the cost

advantage equal to the taxation rate can be brought under the GST bill. This will bring a lot of unorganized players in the fields like electrical, paints, hardware etc. under the tax net. It is easier said than done. It will take a lot of meticulous planning in the implementation of the GST reform for capturing the unorganized sector under its ambit. For one it will widen the tax reach and secondly it will benefit the organized players who lose out revenue to the unorganized sector at present. There are still a lot of unchartered territories which need to be looked into through parliamentary discussions in the sessions. To The Individual one and different Companies, the collection of both the central and state taxes will become one, both components will hike prices on the manufacturing costs and the individual will benefit from lowered prices in the process which will subsequently lead to increase in consumption thereby profiting companies.

**8.1 Electrical and Electronic Goods:** Electronic goods like AC, microwave ovens, refrigerators, washing machines etc will be cheaper because presently there is 12.5% excise and 15.5% VAT is levied on them but after GST only single tax will be levied which will bring the prices of these electronic goods.

**8.2 Restaurant Bill:** Eating out will also be cheaper because presently both VAT and service taxes are levied on it. But when GST will be levied, it will cut the bill.

**8.3 Multiplex Theatre and Media:** Currently 22 to 28 percent taxes are charged on multiplex and media as service tax and entertainment tax both are levied. But after implementation of GST, this tax amount will be reduced to 18 to 24 percent.

**8.4 Medicines:** on medicines, different taxes are levied. After GST the rate of tax may be reduced by 6 percent.

**8.5 Cars:** Small cars will also be cheaper in price.

**8.6 Cement:** After implementation of GST 14 to 18 percent less tax will be charged on cement, this will reduce the prices of cement. Other Goods Accepts these luxury cars, FMCG products, consumer durable, ready-made garments etc will be cheaper when GST will be implementation. On the other hand following are some items which will be costly after levy of GST.

**8.7 Packed Food:** Packed food will be costly by 12 percent. It include tea, coffee etc. on which presently no duty is high, but after levy of GST, if central Government charge at base rate, even then prices of packed food will increase.

**8.8 Diamonds, Jewellery, Garments:** After GST implementation, diamonds, jewellery and readymade garments will be costly because currently three percent tax is charged on them and after implementation GST the tax may be hiked.

**8.9 Services:** There will be increase in prices of mobile bill, Credit Card bill etc. Presently 15.5% tax is charged on these services and with levy of GST it will be 18%, which will make these services costly.

**8.10 Textile, edible oil, Low Value Footwear:** Tax rate of excise duty is nil and VAT in most states is 5%. Thus, the overall tax cost for these goods is about 8 to 9 percent. If these goods are kept at standard GST rate of 18% then there would be significant increase in cost of these items for the end customers. If these are kept at lower GST of 12% there would be an increase in cost for consumers. While the Government is sure of the benefits of GST will bring to common man, it is still early days to predict that which items will be cheaper are expensive. Experts say inflation can go up for a year after implementation of GST that's has been the international experience. We have on economy where services tend to dominate and GST will on services will be higher that current situation. On the other hand some articles are outside the taxation right now which will also get added. This is also the reason of higher prices.

**8.11 Impact on Employment:** Analysis say that the fear of job losses in GST regime persist as it hits the unorganized players, who have to now come under tax compliance while benefitting the mid large sized companies which are already under the organized sector.

## 9. MODELS OF GST

There are three prime models of GST, which are available in existing literature which are as follows:-

1. GST at Central (Union) Government Level only
2. GST at State Government Level only
3. GST at both, Union and State Government Levels

**9.1 Importance of GST to the economy:** GST is designed to remove the burden by ending many Indirect Taxes. GST will be important for economy in following ways like GST will reduce tax evasions, it will help to provide more money to backward states like Bihar, Jharkhand etc. Which will improve the economy of the country and also removal of local taxes.

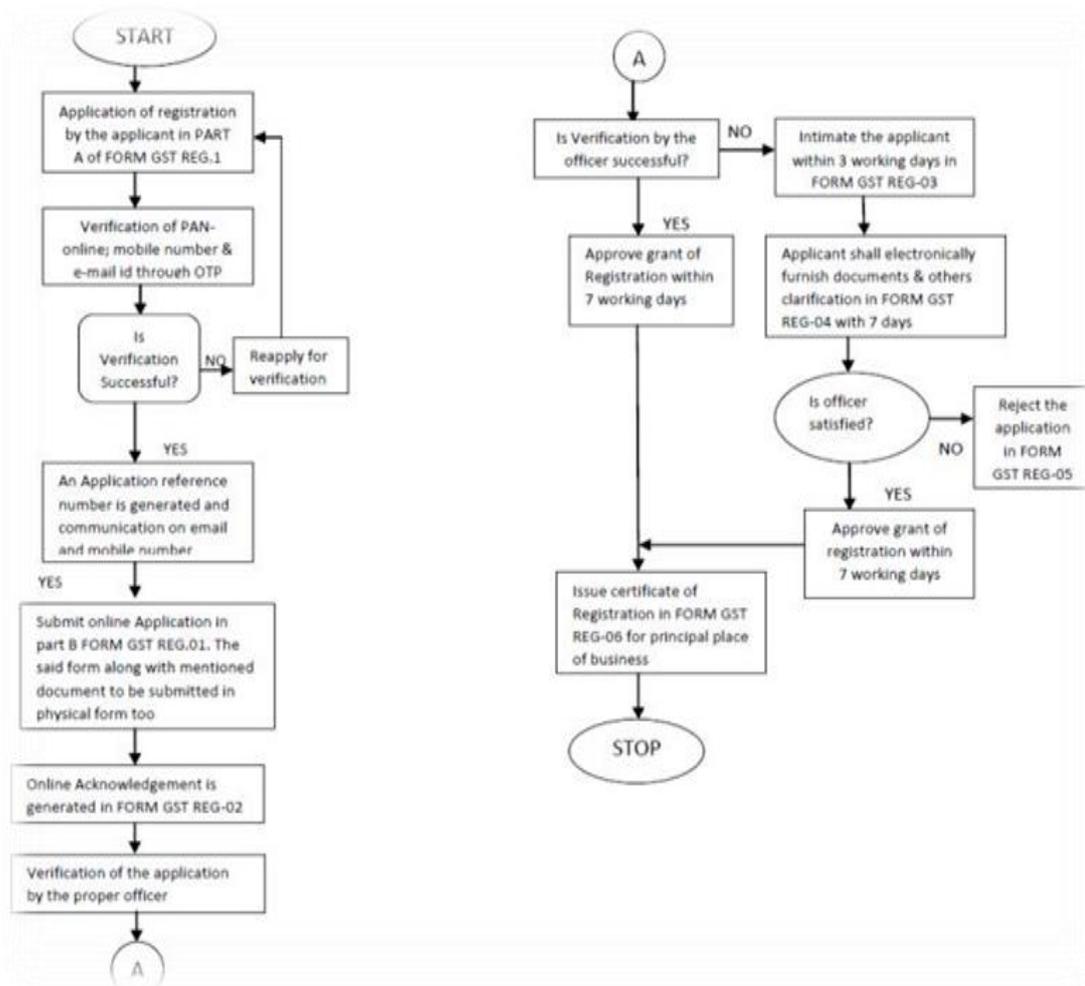


Fig. 9.1: Registration process of GST

Table 9.1: Tax before and after implementation of GST

| Goods                 | Before         | After |
|-----------------------|----------------|-------|
| Package Products      | 4-5%           | 18%   |
| Readymade Garments    | 4-5%           | 18%   |
| Jewellery             | 3%             | 18%   |
| Mobile & credit cards | 15%            | 18%   |
| Cars                  | 30-44%         | 18%   |
| Home appliance        | 12.5% & 14.5%  | 18%   |
|                       | (Excise & VAT) |       |

Table 9.1 reveals that the percentage of taxes before and after implementation of GST like on package products we pay 4-5% taxes but after the implementation of GST it would be total 18% which shows that all package products would turn costly which will affect common man. After package products we see that on readymade

garments were also pay 4-5% of taxes but after GST it will be 18% , readymade garments would also be costly like this jewellery, mobile , credit cards etc. , would also turn costly but cars, home appliance etc, would also turn costly but cars, home appliance etc, would be cheaper. So we can conclude that after implementation of GST common man will suffer because he would not be avail ot satisfy his wants completely but there would be no impact on higher income level people.

**Table 9.2: Expected price movement for items upon implementation of GST**

| Decrease                           | No GST   | Increase                       |
|------------------------------------|--|--------------------------------|
| Television                         | Bread, white & whole meal                            | Mobile phone                   |
| Refrigerator                       | Cooking oil(palm oil, coconut oil and groundnut oil) | Computer                       |
| Air- conditioner                   | Beef, mutton, lamb, chicken & Portk                  | Eye-pad& tablet                |
| Spark plug, brake pad& car battery | Local fruits   | Photocopy machine              |
| Home theater system                | Diesel   | Digital photo printing         |
| Hair dryer                         | Petrol unleaded 95                                   | Transportation of goods        |
| Electric fan & toaster             | Rice   | Drinking water                 |
| Gas cooker- double burner          | Fresh vegetables                                     | Magazines                      |
| Electric Iron                      | Fresh fish & prawns                                  | Fish balls                     |
| Cotton bath towel                  | Powdered milk  | Canned sardine &               |
| Colour pencil                      | Chicken & duck eggs                                  | Lipstick                       |
| Toothbrush                         | Public transport                                     | Nail colour                    |
| Dettol, antiseptic                 | Motor oil  | Motorcycle, 110cc              |
| Dinning set (6 chairs)             | Engine oil   | Watches                        |
| Diapers                            | Private clinic x-ray                                 | Ice cream                      |
| Car 850cc                          | Toll   | Cheese                         |
| Toothpaste                         | Chilli   | Oats & cereals                 |
| Plastic mat                        | Alcohol  | Chilli sauce, oyster sauce etc |
| Imported fruits                    | Tobacco  | -                              |
| Soft drink                         | -  | -                              |

(Source: <http://www.gstindia.com>)

Table 9.2 reveals the impact of GST after implementation, it can be understood clearly from the table which shows the rate of goods increasing and decreasing after implementation of GST this table also shows some goods on which there is no implementation of GST. The first row shows the goods whose rate will decrease after GST and second row shows increase in rates of goods after GST. Thus these were some of the items which are affected after the implementation of Goods and Services Tax.

**Table 9.3: Impact of GST in Present**

|                                   | Present Scenario |                 | After GST    |                 |
|-----------------------------------|------------------|-----------------|--------------|-----------------|
|                                   | With invoice     | Without invoice | With invoice | Without invoice |
| <b>Manufacture to distributor</b> |                  |                 |              |                 |
| Sale price of Phone               | 10,000           | 11,000          | 10,000       | 11,000          |
| Add: Excise Duty @12%             | 1,200            | -               | -            | -               |
| Add: VAT@4%                       | 448              | -               | -            | -               |
| Add:GST@16%                       | -                | -               | 1600         | -               |
| <b>Final payment</b>              | 11,648           | 11,000          | 11,600       | 11,000          |
| <b>Distributor to wholesaler</b>  |                  |                 |              |                 |
| Sale price of Phone               | 15,000           | 15,000          | 15,000       | 15,000          |
| Add: VAT@4%                       | 600              | -               | -            | -               |

(Source: <http://www.gstindia.com>)

Table 9.3 divided into two parts in which first part reveals that in present scenario sales price of phone from manufacturer to distributor with invoice is Rs. 11,648 & without invoice is Rs. 11,000 but after GST the sales price of phone with invoice will is Rs. 11,600 and without invoice is Rs. 11,000.

Second part reveals that sales price of phone in present scenario from distributor to wholesaler with invoice is Rs. 15,600 and without invoice is Rs. 15,000 while as after GST the price of phone with invoice is Rs. 17,400 and without invoice 15,000. The net profit to distributor with invoice is Rs. 3,800 and without invoice is Rs. 4,000 in present scenario but after GST the net profit of distributor without invoice is Rs. 5,000 and without invoice is Rs. 4,000 thus the conclusion from this table is that in present scenario the distributor will prefer without invoice but after GST the distributor will prefer with invoice.

### **9.2 GST will positively affect the common person:**

GST is a unified tax system removing bundle of indirect tax like VAT , CST , SERVICE TAX, CAD, SAD and excise duty which will have a positive impact on common man.

### **9.3 Problems which GST after implementation:**

Disputes are likely to arise between centre and state over tax. Highly sophisticated IT infrastructure is required to issue of taxing e-commerce is to be appropriately addressed and integrated and some political imbalance.

### **9.4 Latest updates for the implementation of GST in India:**

There are some updations for implementation of GST in India, are as follows:

1. On 12th September Punjab is likely to become twenty second state to clear the constitutional amendment before it heads for presidential asset. The bill was first cleared by BJP-ruled Assam on August 12, followed by Bihar, Jharkhand, Chhattisgarh, Gujarat, and Himachal Pradesh.
2. The Integrated GST (IGST) & Central GST (CGST) laws would then be approved by the union cabinet and then are likely to be sending to parliament for its approval in the winter session with the deadline of April 1, 2017 for Indirect Tax regime.
3. President Pranab Mukherjee signed the Goods and Service Tax Bill (GST), making the bill in the form of a law. The constitutional amendment bill proposing the indirect tax regime was already approved by Lok Sabha, Rajya Sabha, and over 16 state assemblies. Under GST, taxes previously imposed by the Centre and States will be replaced with a common nation- wide taxation system.
4. GST comes in way of governments plan to scrap old vehicles.
5. GST Council gets cabinet approval, the council to be headed by finance minister Arun Jaitely and comprising of representative of all 29 States and two union territories, the cabinet headed by P.M. Mr. Narendra Modi approved the process, formation of GST council.

## **9. CONCLUSION**

The GST System is basically structured to simplify current Indirect Tax system in India. A well designed GST is an attractive method to get rid of deformation of the existing process of multiple taxation also government has promised that GST will reduce the compliance burden at present there will be no distinction between imported and Indian goods & they would be taxed at the same rate. Many Indirect Taxes like Sales Tax, VAT etc., will be finished because there will be one tax system i.e. GST, that will reduce compliance present burden. GST will face many challenges after its implementation and will result to give many benefits. In overall through this study we conclude that GST play a dynamic role in the growth and development of our country.

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