Goods and Services Tax – Impact on the Economy

Dr. G.S.Leela
Associate Professor
Department of Management
Wesley PG College, Hyderabad, Telangana, India

Abstract— GST stands for Goods and Services Tax. It is a value-added tax that is imposed on goods and services and that is traded for domestic consumption. GST is also called an indirect tax and was brought on 17th July 2017. This type of tax is applicable throughout India, and it is the replacement of VAT. Under GST, goods and services are taxed at the following rates, 0%, 2.5%, 5%, 12%, 18% and 28%. Goods and Services Tax (GST) is India's most aggressive and noteworthy indirect tax reform. The objective is to collect a single uniform tax across India on all goods and services with the simplified procedure and transparency in the tax structure both for producers and consumers. This paper focuses on ambiguous opinions and the impact on manufacturers, distributors, and retailers and also the problems and prospects in implementing.

Keywords: Goods and Service Tax, Ambiguity, Central Taxes, State Taxes

I. INTRODUCTION

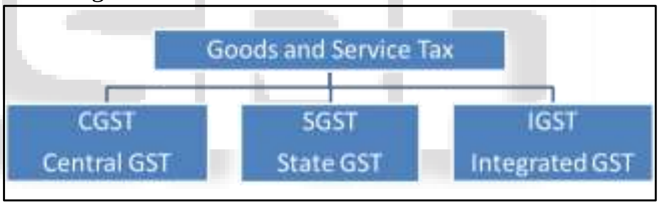
The introduction of GST is a significant step in the reform of indirect taxation in India. It combines several central and state taxes into a single tax that would mitigate cascading or double taxation and not only that, but the government also wanted the GST rates close to the original rates. But there were differences in the case of some items because of the changes in the economy as well as customer preferences.

GST is a dominant step in the restructuring of indirect taxation in India. GST is the Combination of several central and state taxes viz., Central Excise duty, Service Tax, Countervailing Duty, Special countervailing duty, Value Added Tax (VAT), Central Sales Tax (CST), Octroi, entertainment tax, entry tax, purchase tax, luxury tax, advertisement tax, and taxes applicable on lotteries into the single tax system. Some commodities were kept in the high tax bracket (18-28%) but on scrutinizing the list, they found that these commodities should be considered as necessities and not luxuries. For this reason, GST rates were revised for goods like exercise books, notebooks, lenses, and spectacles, etc.

GST is levied on the value or selling price of the products, and only an authorized person can collect and zero tax on fresh meat, fish, chicken, eggs, milk, buttermilk, curd, natural honey, fruits, and vegetables. It includes other products like flour, bread, salt, bhindi, stamps, printed books, newspaper, Bangles, handlooms, etc. GST has transformed the economy at its peak. It is a game-changing reform for the Indian economy as it brings about net prices for the goods and services considered under a single taxation system. The following are the GST that impacts the Indian economy.

1) Increase in Competition: The implementation of GST has eventually reduced the price of goods and services and seen a great scope of increased production thus, increasing the competition in the market.
2) Simple Tax Structure: GST introduced a single taxation system thus, saving them time and money.
3) Uniform Tax Regime: Multiple taxes replaced with a single tax with the help of GST. GST made it relaxed for the taxpayer to pay uniform tax.
4) Increase in Exports: After GST got imposed the cost of production decreased in return increased the exports. This has brought competitiveness towards the international market resulting in a rise in exports.

GST is a large indirect tax structure designed to support and enhance economic growth and implemented in more than 150 countries. The introduction of GST would also make the Indian economy more vibrant and competitive. The GST would pave the way for establishing efficient markets in domestic and international spheres. GST has full coverage; it covers all the intermediaries involved in the supply chain. In this supply chain, the crucial link is the retailers. The implementation of Goods and Services Tax (GST) in India is a historic move, as it marked a significant indirect tax reform in the country. The amalgamation of many taxes levied into a single tax is expected to have greater advantages. The following is the classification of Goods and Services Tax:



Activities that are covered under GST are transfer, sale, purchase, lease, barter, or import of goods and services. India has taken up a dual GST model signifying that taxation is executed both by the central and State Governments

If the transactions made within a single state and levied with Central GST by the Central Government it is CGST, State GST by the government of that state is SGST and for inter-state transactions and on imported goods or services, an Integrated GST is levied by the Central Government and in short it is called as IGST.

GST is a consumption-based tax viz., the taxes are paid to the states where the goods or services are consumed and not the state in which it is produced. The complication with IGST for state government is that it disables to collect the owed tax directly from the central government, whereas in the previous system state was the sole responsible to collect tax revenue. In GST the differential rates are administered because the desire is to keep the rates lower for the goods consumed by masses and higher rates for rich sections of the society. The fundamental concept for determining the differential rate is to levy at the rate slab closest to the previous tax. Lower rates for necessary items and the purpose is to control inflation and the higher for luxury and de-merit goods. De-merit goods means the goods which have negative impact on consumers.

Tax Rates	Products
Nil	Hulled cereal grains, sanitary napkins, etc.,
0.25%	Cut and semi-polished stones are included under this tax slab.
5%	Edible oil, sugar, spices, tea, and coffee (except instant). Coal, Indian Sweets, and Life-saving drugs
12%	Processed food and computers
18%	Hair oil, toothpaste and soaps, capital goods, and industrial intermediaries
28%	Luxury goods, consumer durables, and high-end motorcycles.

II. Objectives

1) To study the ambiguous opinions among the Manufactures, traders, and society about the Goods and Services Tax (GST).
2) To study the Prospects and problems in the implementation of Goods and Services Tax (GST) in India

III. Review of Literature

Abda, S., (2017) stated the objectives, purpose and benefits of implementing the GST. According to N. Kumar, (2014) GST will help in eliminating economic bias by current Indian tax system and is expected to encourage unbiased tax structures. Khurana &Sharma, (2016) had explored various benefits and opportunities of GST by throwing a light on objectives GST plan and its impact on Indian tax scenario and concluded that GST implementation will be advantageous to producers and consumers. Kumar, R., (2016), had differentiated the GST framework and previous taxation system and featured the impact of GST on Indian economy. Khurana, A. And Sharma, A., (2016), explored the objectives of GST and reforms in indirect taxation system in India. And conclude that after implementation of GST, manufacturer, wholesaler and retailer can be easily recovered input taxes in form of tax credit. Kawle ,S, P. and Aher, L.,Y., 24(2017) in their research paper highlighted the working of GST in India along with its impact on the Indian economy. Munde&chavan, (2016) discussed the pros and cons of GST and gave suggestions to minimise loopholes and make it more effective. Mujalde, S. and Vani, A., (2017), focused on the components of GST, impact of GST and possible advantages and challenges of GST. Nath, B., (2017), discussed the benefits and blow of GST on Indian economy and conclude that GST has a positive impact on various industries and sectors. NishithaGuptha, (2017) stated that implementation of GST in the Indian framework will lead to economic benefits which were untouched by the VAT system and would essentially lead to economic development. Nayyar, A. and Singh, I., 25 (2017) in their study cited that how GST will help in redefining the Indian tax structure. They also stated that by introduction of GST the tax structure will be more transparent and free from corruption.

IV. Challenges in Implementing GST are as follows:

1) Note ban had a huge impact on the Goods and Services Tax (GST) as the central government targeted the implementation of GST from 1st April 2017.
2) GST will also have an impact on cash flow and working capital. Cash flow and working capital of business organizations that maintain a high inventory of goods in different states will be adversely affected as they will have to pay GST at full rate on stock transfer from one state to another. Presently, CST/VAT is payable on sale and not on stock transfers.
3) Implementation of GST in Unorganized sectors viz., the unregistered firm will be unfavorable to the government.
4) Political reasons are determining the fate of GST, which is not the correct thing because ideally GST is an economic, and tax reform and it should not be dictated by political.
5) Manufactures, traders and society are eagerly waiting not only for the date of introduction of GST but also for the rate that is applied to the products and services.
6) It seeks to improve tax compliance by applying strong data reporting requirements electronically and cross-matching of the reported data.

We have entered into 4th year of implementing the GST. Due to the changes that have been introduced in the past three years, it has become the toughest ride for the government, industries, and as well as consumers and the toughest challenges for the GST council during 2020-2021 is to compensate for the huge deficit that was caused during the pandemic period.

V. Prospects in Implementing GST

1) In India before the implementation of GST, the indirect tax structure was the major barrier both for economic growth and competitiveness. Tax barriers werein the form of CST, entry tax, restricted input, and tax credit. The tumbling effects of multiple taxes had made primitive manufacture less attractive because they were complex thus increasing the cost of conformity. As a result, GST was introduced.
2) The evacuation of tax barriers on the introduction of GST will make India a common market leading to economies of scale in production and alsoefficiency in the supply chain. It will expand trade and commerce.Implementation of GST in the economy will have a positive impact on organized sectors,the logistic industry, and warehousing.
3) Electronic processing of tax returns, refunds, and tax payments through 'GSTNET' without human intervention, will reduce corruption and tax evasion.
4) The sectors like FMCG, Pharma, Consumer Durables and Automobiles, and warehousing and logistic industry are the major beneficiaries of GST.
5) The high inflationary impact would be on telecom, banking, and financial services, air transport, road transport, construction, and the development of real estate.

VI. Revised GST Tax Rates on some common items

Though edible items such as sugar, tea, and coffee are included in the 5% slab, milk does not attract any tax under the new GST regime. Basic household items like toothpaste and hair oil, which currently attract 28% tax, will be taxed at 18% only. Sweets will also be taxable at 5%. Tax rates on coal have also been reduced from 11.69% to just 5% to relieve the pressure on power industries. It also gives a major push to domestic industries as they will be able to procure seamless input credit for capital goods. Make in India campaign is set to flourish after this reform. GST was introduced to reduce tax evasion and create a systematic tax system in India. However, the complex structure that was introduced is affecting the common man.

VII. Advantages with reduced GST

1) According to a report by the National Council of Applied Economic Research, GST is expected to increase economic growth by between 0.9 per cent and 1.7 per cent.
2) Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer.
3) GST eliminates complexities in the present taxation structure and consequently prevent the loss of nearly 50% of the advantage of lower manufacturing costs that India has over the western nations
4) Single authority will have the administrative responsibility to levy tax on goods and services
5) Implementation of GST assures a single taxation system in the entire country for all goods and services making tax compliance easier and more effective

VIII. Adverse effects

1) GST is said to be proving detrimental to the growth of small scale industries.
2) Services which were charged on receipt basis are charged on accrual basis.
3) GST is required to be paid, once invoice is raised even if there is no certainty of receiving the payments for the services rendered
4) Number of goods and services has become costlier after launch of GST and this increases inflation which is already staggering under the pressure of demonetization.

IX. Conclusion

In India, there is a need for GST because there are several taxes on goods and services which lead to high cost, complexity in procedure, confusion, and chances of corruption. The need for GST in the Indian Taxation System will add value at each stage and will set off the rates both at the state and at the central level. Introducing GST will increase the efficiency of taxation and improves economic growth. The efficient formulation of GST will lead to resource and revenue gain both forthe center and states majorly through the widening of the tax base and improvement in tax compliance. The impact of GST on various sectors and industries has a positive impact. Implementation of GST requires intense efforts of all stakes holders such as central government, state government, trade, and industry. There is a chance of reducing the corruption tax evasion through electronic processing of tax returns, refunds, and tax payments.The slow growth of GST collections, failure to reach on general agreement on rationalization of rates, a profusion of compliances, and admittance of items like petroleum products, electricity,and alcohol in the GST are some of the key issues to be addressed. The government has to take steps to educate, provide training, conduct seminars, or attending seminars or workshops on GST.

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