IMPACT OF GST ON INDIAN ECONOMY – OPPORTUNITIES AND CHALLENGES

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ABSTRACT

This paper deals with the impact of GST (Goods and Service Tax) on Indian economy. Why there was a need for the alteration in tax system from traditional tax structure to GST model. GST (Goods and service tax) is a new spin on VAT (Value Added Tax) which provides an extensive setoff for input tax credit and subsumes seventeen indirect taxes from Central and State level. The concept and need of GST have been discussed in detail in this paper. The execution of a comprehensive system of GST in India is anticipated to direct the efficient distribution of factors of production consequently resulting in gains in GDP and exports. First suggested by Dr. Vijay Kelkar, Chairman of 13th Finance Commission in 2004, it took 13 years for the GST system to turn into a reality. Since its implementation in July 2017, GST has been both appreciated and criticized by both manufacturers and consumers. The paper tries to find out whether it has beneficiary or not, how it affects different sectors of the economy.

Keywords: Tax, Indirect tax, Goods and Service Tax (GST)

INTRODUCTION

In order to recognize the effect and significance of GST on Indian economy, it is vital to know about the current tax structure in the country. Currently, there are multiple taxes levied at Central level (e.g., Central Excise Duty, Service Tax) and State level (Value Added Tax, Entertainment Tax, Octroi, Purchase Tax, Luxury tax etc). The imposition of so many taxes leads to ‘cascading effect of taxes’ or ‘taxes on taxes’. To illustrate – suppose A sells goods to B, pays sales tax on it. Now, when B sells these goods to C, he further pays the sales tax. So, it is a tax on tax. However, VAT was a way ahead wherein, every next stage dealer received a credit of the previously paid tax.

A similar concept was introduced through Central Excise Duty where credit of excise duty at the input stage was allowed to be off set against that on the removal of goods.

But the problem is Service Tax and Excise Duty are charged at Central level, and VAT at State level. So, this cross utilization of credits cannot take place. Again, tax on tax is charged from Central to State level.

There is another example to explain the problem. Suppose A is a timber supplier. He buys timber from Delhi at 12.5% Entry Tax. Now, he realizes that tax in Punjab is only 5.5%. So, he would want to either shift his business to Punjab or establish a subsidiary in Punjab to procure the material at a much lower cost. So, State level taxes have an inherent problem of difference of rates.
Stated as one of the biggest tax reforms in our country, GST is set to make the current tax system easier and more transparent.

Having a single tax for the whole country will unify the common market in India. Right from the manufacturer to the consumer, there will be one single indirect tax levied on value addition at all stages. So, the consumer will pay the GST demanded by the last dealer only, with set off benefits.

Since India has a federal system, there will be two components of GST - CGST (Central GST) and SGST (State GST).

**OBJECTIVES**

1. To enhance GDP - the GST is expected to increase both domestic and international trade which in turn is expected to increase the GDP rate in India.
2. To attract FDI and other foreign investors - common tax rate system throughout the country will insure transparency in the tax regime and will act as an advantage for the companies to do business in India with a relative ease and as a result is expected to attract foreign investors.
3. To simplify tax regime - single tax and lesser number of tax rates will make the tax regime much simpler as compared to the previous complex system.
4. To facilitate Tax management - management of multiple taxes such as purchase tax, VAT, entry tax, service tax etc. is difficult and time consuming. It is easy to manage GST.
5. To control Tax evasion - too many tax rates and multilayer tax system not only make the management difficult but also leaves room for tax evasion. In order to avoid tax evasion transparency in the tax system was must.
6. To phase out cascading effect of the indirect tax - the cascading effect of the taxes on the product makes the product less competitive in the international markets. With GST no cascading effect of the indirect tax will be there.
7. To develop common national market - Earlier tax rates and policies were different in different states and in state and center. GST is aimed to develop a common national market.
8. To ease the business in India - clear, transparent and unified tax will ease the business in India. Further it will reduce the cost of the manufactured goods.

**METHODOLOGY**

Since we have conducted an explanatory research, the paper is based on secondary data including journals, newspapers, magazines, and articles. Descriptive type research design has been adopted to provide more accuracy and better analysis of research study. The secondary data has been utilised for research study.
LITERATURE REVIEW

Shefali Dani (2016) studied “Impact of Goods and Service Tax (GST) on Indian Economy” and found out that GST will simplify the current indirect heterogeneous tax structure, remove inefficiencies, is applicable and successful in over 150 countries, but it may falter in India due to likely inflation and also its impact on certain industries like telecommunication.

Lourdunathan F and Xavier P (2017) studied “Implementation of goods and services tax (GST) in India: Prospectus and challenges” and observed that GST will make one tax, one nation, will provide relief to producers and consumers through input credit set-off, will result in resource and revenue gain at both Central and State levels.

Raj Kumar (2016) studied “Comparison between Goods and Services Tax and Current Taxation System and found out that if we compare different taxes and duties levied under present tax system and under GST, GST will simplify the processes, bring transparency, higher output, employment opportunities and economic growth.

Garg, Girish (2014) studied “Basic Concepts and Features of Good and Service Tax in India” and concluded that GST will affect different sectors of the economy differently – where it will double the tax burden on food items (like cereals, grains, dairy products etc.) and thus is not preferable, it is essential for the construction, housing and FMCG industries for their growth and expansion.

Saravanan Venkadasalam (2014) has studied the consequence of GST on the economic growth of ASEAN States using Least Squares Dummy Variable Model (LSDVM). As we know that seven of the ten ASEAN nations have already been using the GST. He recommended that the household final consumption expenditure and government general consumption expenditure are positively considerably related to the GDP (Gross Domestic Product). But the outcome of GST differs in countries. Philippines and Thailand show major negative relationship with their national growth. On the other hand, Singapore shows a momentous positive relationship.

WHO CAN COLLECT GST?
Person registered under the GST act can collect the GST and Registration under GST is compulsory except for few who are exempted from the GST.

WHO MUST BE REGISTERED UNDER GST?
It is compulsory for the Person other than those who are exempted, having an aggregate turnover of Rs 20 lakhs or more (Rs. 10 lakh for hill states) to register themselves under GST. Aggregate Turnover includes taxable, non-taxable and exempt supplies. Also aggregate turnover is counted on Pan India basis based on Income Tax PAN. In case of inter-state supply of goods/ or services the above limit is not applicable.

PERSONS/OR ENTITIES EXEMPTED FROM THE GST
Following are exempted from the GST but can register under GST voluntarily.

1. Charitable Activities
2. Those whose Aggregate turnover is less than the limit.
3. Persons supplying Goods and / or Services that are subject to levy of GST under Reverse Charge like Lawyers.

Few goods and services are also exempted from the GST such as Educational services, supply to government or Embassies of other countries, Exports, health services etc. GST is a Destination Based tax. It is levied at each stage of supply of Goods and / or Services up to stage of ultimate consumption by the consumer.
DATE OF FILING OF RETURNS UNDER GST ACT

Under the new tax system returns can be filed by the different persons through electronic mode and to insure further transparency monthly return filing can also be seen in the new structure. Following table depicts some crucial due dates for NBCC (India) Limited, further penalty of Rupees 100 per day of delay per return will be charged.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>GSTR Number and Details</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>GSTR - 01 : Details of Outward Supplies</td>
<td>10(^{th}) of the Following month</td>
</tr>
<tr>
<td>2.</td>
<td>GSTR - 02 : Details of Inward Supplies</td>
<td>15(^{th}) of the Following month</td>
</tr>
<tr>
<td>3.</td>
<td>GSTR - 03 : Monthly return for each registration</td>
<td>20(^{th}) of the Following month</td>
</tr>
<tr>
<td>4.</td>
<td>GSTR - 09 : Annual Return</td>
<td>31(^{st}) December of the Following Financial year</td>
</tr>
</tbody>
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ROLE OF CENTRAL BOARD OF EXCISE AND CUSTOMS

The Central Board of Excise and Customs (CBEC) is a part of Department of Revenue under the Ministry of Finance, Government of India. It is responsible for formulating policies regarding collection of service tax, central excise, customs etc. CBEC has played an active role in the formulation of GST law and procedure such as CGST, IGST etc. Further full awareness and assistance system in the simplified way is provided to the tax payers. For information and the procedure tax payers can also visit CBEC website www.cbec.gov.in.

BENEFITS OF GST

1. There will be lesser compliances. This will simplify the life of a taxpayer as 17 indirect taxes have been subsumed. It will also decrease compliance costs.
2. GST will increase transparency as it will unify the national market, blurring the State lines and manufacturing sector will have bigger areas for prospective markets.
3. No cascading of taxes – Cascading of taxes in the current system i.e. tax on tax will reduce and the domestically produced goods will become cheaper with lesser tax and logistics costs for the consumers.
4. Since all taxes are integrated under GST system, it will lead to equitable distribution of tax burden on manufacturing and services.
5. It will remove cascading of taxes as it will be charged only at the final destination of consumption, similar to the principle of VAT.
6. GST increases the Government revenue, by enhancing the tax base.
7. Regulating the unorganized sector – Some industries in our country such as textile and construction are mainly unorganized and unregulated. GST has requirements for online payments and compliances, claiming of input credit only at the time, the supplier has received the amount, thus bringing regulation and accountability to these industries.
8. GST will remove custom duties levied on exports. India’s competitiveness in foreign markets will rise due to lower cost of transaction.
9. Defined treatment for e-commerce – Many Indian companies sell goods and services on the internet. States have different VAT laws for the e-commerce sector. Example – websites like
Jabong, amazon, myntra, etc transporting goods to Uttar Pradesh have to submit the registration number of the delivery truck and a VAT declaration.

10. GST will improve the exports. As the cost of Production descends in the Indian market, domestic goods and services become price competitive in foreign markets.

11. Increased efficiency in logistics - The logistics industry in our country had to maintain several warehouses across states to evade the current CST (Central Sales Tax) and state entry taxes on movement across States. Many a times, these warehouses are required to work below their capacity therefore increasing their operating costs.

12. GST will encourage to Make in India. The GST implementation will attract competition in the manufacturing sector because it will attend to the concerns of fragmented market, cascading effect, high logistics costs, and inter-state tax. Also, GST will entail suitable countervailing duty giving improved protection from imports.

DISADVANTAGES OF GST

1. Learning the new tax system will not be an easy process especially for the small traders for the initial few years.
2. The necessity of internet and laptops/or computers will further make it difficult for small traders who lacks such facility.
3. Privacy/or security issues might occur with GSTN or IT network of GST.
4. If any single failure occurs in IT network of GST it could affect every individual across India.
5. Local dealers who were only paying VAT will be required to pay both CGST and SGST under the new system.
6. Few industries will be negatively affected by the new GST system such as Garment and cloth industry making the garments and clothes more expensive.
7. Under the new GST system states could face heavy losses in the tax collection though the compensation is also provided for the same.
8. According to the some economist real estate business is expected to be negatively affected by the GST.
9. Some experts feel that GST will not be able to show major reduction in the prevailing multi-layers of tax system. It is simply the old wine in the new bottle.

CONCLUSION

Though Change is often resisted and is not an easy transition but it still is a necessary one. No doubt the new policy change of such a huge nature in the tax system will not be a piece of cake for many but the new unified and transparent system is expected to bring foreign investment and various other benefits in the future. It will make the Indian market more competitive than before and will increase the taxpayer base bringing the unorganized sector under its purview. Individually some industries/ or sectors will be benefitted while others can face losses, similar will be the case with individuals such as small traders who might

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