



WWJMRD 2017; 4(2): 11-13
www.wwjmr.com
International Journal
Peer Reviewed Journal
Refereed Journal
Indexed Journal
UGC Approved Journal
Impact Factor MJIF: 4.25
E-ISSN: 2454-6615

Dr. C. RAJA

Assistant Professor,
Department of Commerce
NIFT-TEA College of
Knitwear Fashion, Tirupur
India

GST – Implication for Indian Economy

Dr. C. Raja

Abstract

The research paper is regarding implication of GST on Indian Economy. With the introduction of GST there is confusion among common man. The aim this research paper is to explain the mechanism of GST and its effects on Indian economy. In India, the idea of GST was contemplated in 2004 by the Vijay Kelkar Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003, named Kelkar Committee. The Kelkar Committee was convinced that a dual GST system shall be able to tax almost all the goods and services and the Indian economy shall be able to have wider market of tax base, improve revenue collection through levying and collection of indirect tax and more pragmatic approach of efficient resource allocation. Under the Goods and Service Tax mechanism, every person is liable to pay tax on output and shall be entitled to enjoy credit on input tax paid and tax shall be only on the amount of value added. The historic goods and services tax has become a reality. The new tax system was launched at a function in Central Hall of Parliament on 1st July, 2017 (Friday midnight). GST, which embodies the principle of "one nation, one tax" is aimed at unifying the country's \$2 trillion economy and 1.3 billion people into a common market. Under GST, goods and services fall under five tax categories: 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent. For corporate, the elimination of multiple taxes will improve the ease of doing business. And for consumers, the biggest advantage would be in terms of a reduction in the overall tax burden on goods. "Inflation will come down, tax avoidance will be difficult, India's GDP will be benefitted and extra resources will be used for welfare of poor and weaker section," Finance Minister Arun Jaitley said at GST launch event in Parliament. The Lok Sabha has finally passed the Goods and Services Tax Bill and it is expected to have a significant impact on every industry and every consumer. Apart from filling the loopholes of the current system, it is also aimed at boosting the Indian economy. This will be done by simplifying and unifying the indirect taxes for all states throughout India.

Keywords: GST, Indian Economy, Positive Impact, Negative Impact, Central Government, State Government

Introduction

Goods and Services Tax (GST) is a value-added indirect tax at each stage of the supply of goods and services precisely on the amount of value addition achieved. It seeks to eliminate inefficiencies in the tax system that result in 'tax on tax', known as cascading of taxes. GST is a destination-based tax on consumption, as per which the state's share of taxes on inter-state commerce goes to the one that is home to the final consumer, rather than to the exporting state. GST has two equal components of central and state GST. Businesses and traders with annual sales above Rs20 lakh are liable to pay GST. The threshold for paying GST is Rs. 10 lakh in the case of northeastern and special category states. GST is applicable on inter-state trade irrespective of this threshold GST will be substituting all indirect taxes levied by the state and central government. GST would apply to all goods other than crude petroleum, motor spirit, diesel, aviation turbine fuel and natural gas and alcoholic liquor for human consumption.

Research Methodology

The research paper is based on empirical study. It is a type of descriptive research paper

Correspondence:

Dr. C. RAJA

Assistant Professor,
Department of Commerce
NIFT-TEA College of
Knitwear Fashion, Tirupur
India

Objectives of Study

1. The first objective is to highlight the implication of GST on Indian Economy.
2. The second objective is to explain the working mechanism of GST in India

Importance of the Study

1. The study will highlight the effect of GST on Indian Economy.
2. It will prove to be of great help to a common man to understand the need and concept of the GST.
3. It will remove the unpleasant things of GST from among the business community members

Data Collection

This paper is a descriptive paper based on secondary data collected from different books, news-paper articles and research journals.

Need for GST

1. The main reason behind introducing GST is to improve the economy of the nation
2. VAT rates and regulations differ from state to state. And it has been observed that states often resort to slashing these rates for attracting investors. This results in loss of revenue for both the Central as well as State government.
3. On the other hand, GST brings in uniform tax laws across all the states spanning across diverse industries. Here, the taxes would be divided between the Central and State government based on a predefined and preapproved formula. In addition, it would become much easier to offer services and goods uniformly across the nation, since there won't be any additional state-levied tax.
4. GST rollout missed several deadlines due to disagreement among many states over certain important issues on the new tax reform. However GST is scheduled for a nation-wide rollout on July 1st, 2017

Features of GST

1. GST is one indirect tax for the entire nation, which will make India "one unified common market"
2. It will replace multiple taxes like VAT, CST, Excise Duty, Entry Tax, Octroi, LBT, Luxury Tax etc.
3. There are four types of GST namely:
 - a) SGST – State GST, collected by the State Govt.
 - b) CGST – Central GST, collected by the Central Govt.
 - c) IGST – Integrated GST, collected by the Central Govt.
 - d) UTGST – Union Territory GST, collected by the Union Territory
4. Tax Payers with an aggregate turnover in a financial year up (Rs. 20 Lakhs & Rs. 10 Lakhs for North Eastern States and Special Category States) would be exempted from tax
5. GST slabs are pegged at 5%, 12%, 18% & 28%.

Impact of GST in India

Positive Impact of GST in India

1. GST is a single taxation system that will reduce the

- number of indirect taxes. From now, a single taxation term would cover all of those indirect taxes.
2. The prices of products and services would reduce, thus this system would prove to be beneficial for the people who are fed up of paying high prices.
3. This would reduce the burden from the state and the central government. With the introduction of GST, all indirect taxes would come under a single roof.
4. GST would not be charged at every point of sale like other indirect taxes so in this way, market would be developed.
5. Corruption-free taxation system. GST would introduce corruption-free taxation system.
6. Less tax compliance.
7. Removes cascading effect of taxes
8. Manufacturing costs will be reduced, hence prices of consumer goods likely to come down.
9. Due to reduced costs some products like cars, FMCG etc. will become cheaper.
10. A unified tax regime will lead to less corruption which will indirectly affect the common man

Negative Impact of GST in India

1. The introduction of GST in the country will impact real estate market. This would increase new home buying price by 8% and reduce buyers' market by 12%.
2. GST is a mystifying term where double tax is charged in the name of a single tax.
3. Most of the dealers don't pay central excise tax and cheat the government by simply giving the VAT. But all of those dealers would now be forced to pay GST.
4. The short-term impact of GST is expected to be neutral-to negative for the broader economy.
5. Production processes are likely to take some time to align with the new framework as firms adjust to the input tax credit system and better manage working capital requirements.
6. For consumers, it will be a mixed bag as some goods become cheaper while others will be expensive.
7. Services will become expensive e.g. Telecom, banking, airline etc.
8. Being a new tax, it will take some time for the people to understand its implications.
9. It is easier said than done. There are always some complications attached. It is a consumption based tax, so in case of services the place where service is provided needs to be determined.
10. If actual benefit is not passed to consumer and seller increases his profit margin, the prices of goods can also see a rising trend.

However, GST is a long term strategy and the positive impact shall be seen in the long run only. Let us hope GST proves to be a game changer in a positive way and proves to be beneficial to the common man.

Impact of GST on various sectors

The GST is said to have a positive impact on the economy as a whole. But when it comes to sectoral-wise classification, the GST have both positive as well as negative impact on each of the sectors. Here are some sectors given and its GST is given below

Technology (Information technology)

The GST system of indirect taxation has made the duty on the manufacturing goods from 14% to 18-20%. As a result, the prices of the software products will be at high which will give either a neutral or slightly negative impact on the Technology Sector as a whole. But they will be benefited through the reduction of tax and benefits of other industries and can somewhat mitigate it

Telecommunication

The telecommunications sector is presently paying the tax at the rate of 14% which is expected to be increased during the GST regime. And, it is assumed to be around 18% which will be expected to be passed over to the customers and this gives a picture that GST will adversely affect this sectors.

Pharmaceuticals

Presently, the Pharma companies are paying taxes around 15- 20%. Since, there is no clear picture of tax treatment for Pharma if it is less than 15% it would be a positive impact on the Sector but if it is above 15% then it will cause some slight negative impact.

Automobiles

The Automobile industry is currently paying a tax rate of a range between 30-45%. And it is expected that after GST the rate will be around 18% which will be a huge positive for the automobile industry and which will be profitable to both the Manufacturers/ dealers and the ultimate consumers. The standard and the social status of the consumers get uplifted. There will be a huge boom in the Automobile Industry as a result of implementation of Goods and Services Tax.

Financial Services

The Financial services such as banking, Stock Trading firms are currently paying 14.5% as VAT which is likely to be increased to 18 to 22% in the near future under the GST regime. And the services are likely to be costlier.

Textiles

Currently, the Textile industry is paying the tax at the rate of nearly 12.5% plus surcharges and which varies upon the MRP of the products. Since there is no clear idea about the tax rate of this industry under the regime of GST it is expected at the rates of 15% which will be having a moderate impact on the industry. This moderate impact may either be neutral or slightly negative when compared to the other present system of taxation. But they will be benefited through the reduction of cost in transportation, savings etc.

Media and Entertainment

The tax rate for the Media is around 22% as of now and since the authority for the levy of taxes remains to be the right of the local bodies, it is expected that the cinema fares are expected to come down after the GST regime and the cost of DTH and cable television services are likely to become costlier There is somewhat either neutral or slightly negative impact of GST on the Media and Entertainment Industry

Consumer durables

The current of tax rate of this industry is around the range between 23-25%. And under the GST regime it is considered to be lower around 15- 18% which will be positive impact to this industry. Cement: The cement industry currently pays the tax at the rate of 25% currently. And, after the GST regime, it is expected to be fixed at the rate of 18 to 20%. This will be a major relief for the companies of that industry. And the logistics tax also is to be reduced; it would be a double benefit for all the industries involved in manufacturing.

Real estate

Real estate contributes about nearly 7.3% of India's GDP and it is the largest generator of employment immediately after IT. Real estate is said to get a positive impact under the GST regime immediately after its implementation. It is expected that since there is a single system of Taxation under GST, all other forms of indirect taxation will be removed which results on reduction of property prices and the cost of construction. Thus, we can have a positive impact of GST on the Real estate sector

Conclusion

GST is at the infant stage in Indian economy. It will take some time to experience its effects on Indian economy. GST mechanism is designed in such a way that it is expected to generate good amount of revenue for both central and state government. Regarding corporate, businessmen and service providers it will be beneficial in long run. It will bring transparency in collection of indirect taxes benefiting both the Government and the people of India

References

1. Business Taxation with introduction to GST – T.S. Reddy and Y Hariprasad Reddy
2. Systematic Approach to Goods & Services Tax (GST) - S K Mishra LL.B, FCA
3. Indirect Tax Laws: PART I : GOODS & SERVICES TAX (GST)
4. <https://taxguru.in/goods-and-service-tax>