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GST IN INDIA : IMPACT ON INDIAN ECONOMY

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ABSTRACT:

The Goods and Services Tax is a nationwide tax that covers the manufacture, sale, and consumption of various goods and services. It is one of the biggest reforms in India's history. It is aimed at increasing overall economic growth and integrating the various State economies. Currently, businesses and individuals pay various indirect taxes such as service tax, VAT, luxury tax, entertainment tax and octroi. The implementation of the Goods and Services Tax (GST) would lead to the elimination of various taxes. It would only have one central tax, which would be monitored by the government. The new system also differs in how it is carried out, as it only applies to final consumption rather than manufacturing goods. The goods and services tax will only have one rate, which is a significant reduction from the multiple tax rates currently applicable. It will help India become a world leader in the tax system of goods and services. The goal of the GST is to create a business-friendly environment and end the distortions caused by various indirect taxes. It is also expected to reduce inflation rates by implementing uniform tax rates. This will help improve the government's fiscal health. This paper aims to study the various aspects of the GST and its effect on the Indian economy. In addition, it aims to gain a deeper understanding of its advantages and disadvantages.

KEYWORDS:

GOODS N SERVICES TAX, ECONOMIC DEVELOPMENT, INDIAN ECONOMY AND VALUE ADDED TAX.

INTRODUCTION

The only way to finance public goods is through taxes, as they cannot be priced accurately in the market. Governments are the only ones who can provide these services, and they should ensure that their laws are designed to prevent market failures or distortion. A well-designed tax system can help boost the country's economic growth and improve the efficiency of its operations. It should also ensure that the distribution of income is carried out in a fair and equitable manner.

GST stands for Goods and Services Tax. It is a domestic trade tax that will be levied in the form of a value added tax on all goods and services -in practice with some exemptions.

A value added tax exempts all inputs including capital goods. Hence, it becomes a general tax on domestic consumption. It is a convenient and economically efficient way of taxing consumption. If it is levied at a single rate and there are only very few exemptions, it becomes a proportional tax on consumption.

In order to ensure that the tax burden is distributed according to the consumption of different individuals, it must be levied on the basis of the principle of destination, that is to say that the tax on a good should go to the state in which the concerned consumer lives. This automatically takes place if the tax is levied at only the central level, or if the state is a unitary one with only one level of taxation. In a federation, there are special problems to be solved if GST is to be levied at the level of the states as well as the federal government.

LITERATURE REVIEW

Nishitha Guptha (2014) in her study stated that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government. Does Goods And Services Tax (Gst) Leads To Indian Economic Development?

Jaiprakash (2014) in his research study mentioned that the GST at the Central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST. Responses of industry and also of trade have been indeed encouraging. Thus GST offers us the best option to broaden our tax base and we should not miss this opportunities to introduce it when the circumstances are quite favorable and economy is enjoying steady growth with only mild inflation.

Saravanan Venkadasalam (2014) has analysed the post effect of the goods and service tax (GST) on the national growth on ASEAN States using Least Squares Dummy

Variable Model (LSDVM) in his research paper. He stated that seven of the ten ASEAN nations are already implementing the GST. He also suggested that the household final consumption expenditure and general government consumption expenditure are positively significantly related to the gross domestic product as required and support the economic theories. But the effect of the post GST differs in countries. Philippines and Thailand show significant negative relationship with their nation's development. Meanwhile, Singapore shows a significant positive relationship.

It is undeniable that those countries whom implementing GST always encounter grows. Nevertheless, the extent of the impact varies depending on the governance, compliance cost and economic distortion. A positive impact of GST depends on a neutral and rational design of the GST such a way it is simple, transparent and significantly enhances involuntary compliance. It must be actual, not presumptive, prices and compliance control would be exercised through an auditing system.

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 baby steps to meet its target of rolling out goods & services tax (GST) on April 1, 2016. The research intends to focus on understanding concept of goods and service tax and its impact on Indian economy.

OBJECTIVES OF THE STUDY

1. To study the concept of Goods and Services Tax (GST) and its impact on Indian Economy.
2. To understand how GST will work in India.
3. To know the advantages and challenges of GST in Indian context.

RESEARCH METHODOLOGY

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

CONCEPT OF GOODS AND SERVICE TAX

The Goods and Services Tax (GST) is a national indirect tax that applies to the manufacture, sale, and consumption of various products and services. It is one of the biggest tax reforms that India has enacted. It is aimed at boosting the country's overall growth and integrating the various State economies. Currently, businesses and individuals pay various taxes such as service tax, VAT, luxury tax, and octroi. All the existing taxes would cease to exist following the implementation of the Goods and Services Tax (GST). This new indirect tax will have one uniform rate and will be monitored by the central administration. Unlike the current system, where different tax rates are applied to different goods and services, the GST will be applicable at the final stage of consumption. One tax rate will be applicable for both goods and services under the GST. This is a significant step in the country's indirect tax reforms. It is expected to improve the country's tax collections and give it a world-class tax system. The implementation of the GST is expected to create a more business-friendly environment by eliminating various distortions in the tax structure. It will also help improve the country's fiscal health by making the collection of taxes more transparent.

The GST is expected to replace all the indirect taxes in India. At the centre's level, GST will replace central excise duty, service tax and customs duties. At the state level, the GST will replace State VAT.

GST – HOW IT WORKS IN INDIA?

The GST system is based on the same concept as VAT. Here, set-off is available in respect of taxes paid in the previous level against the GST charged at the time of sale. The GST model has some aspects which are as follows:

COMPONENTS:

GST will be divided into two components, namely, Central Goods and Service Tax and State Goods and Service

APPLICABILITY:

GST will be applicable to all Goods and Services sold or provided in India, except from the list of exempted goods which fall outside its purview.

PAYMENT:

GST will be charged and paid separately in case of Central and State level. Input Tax

CREDIT:

The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service tax. In other words, the ITC of Central Goods and Service tax shall not be allowed as a set-off against State Goods and Service tax and vice versa.

IMPACT OF GST ON INDIAN ECONOMY

The implementation of the Goods and Services Tax (GST) is expected to have various effects on the country's tax system. It is expected to improve the country's tax to gross domestic product ratio and prevent inflation, but it is also likely to make things more difficult for the services industry.

Although there is an expectation that the country's GDP growth will increase by around 1 to 2 percent, the exact results can only be analyzed after the implementation of the Goods and Services Tax (GST). For instance, while New Zealand's economy experienced a higher growth rate, its counterparts in other countries such as Australia, Thailand, and Canada experienced slower growth after the implementation of the tax.

The proposed one percent tax on inter-state transactions to compensate the states for the revenue loss caused by the CST is likely to be a spoilsport. It is also likely to have an adverse effect on the country's GDP. The Congress has already expressed its opposition to the tax.

The GS Tax rate is expected to be around 17-18% 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 rate will prove beneficial for the manufacturing sector where the tax rate is around 24% at present. The major manufacturing sectors that will benefit the most are FMCG, Auto and Cement. This is because they are currently reeling under 24 to 38 per cent tax.

The sector which is going to be adversely affected is 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 thought of the implications it will have in the services sector if the government moots a higher GS Tax rate like 20% or 24%.

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 unorganised sector which enjoys 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. This will bring sanctity to the taxation system without hurting any of the sectors adversely.

To The Individuals and Companies - With the collection of both the central and state taxes proposed to be made at the point of sale , both components will be charged 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

ADVANTAGES OF GST

Apart from full allowance of credit, there are several other advantages of introducing a GST in India:

INCREASE IN GOVERNMENT REVENUES:

This might seem to be a little vague. However, even at the time of introduction of VAT, the public revenues actually went up instead of falling because many people resorted to paying taxes rather than evading the same. However, the government may wish to introduce GST at a Revenue Neutral Rate, in which case the revenues might not see a significant increase in the short run.

REDUCTION IN PRICES:

Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is a very big reason to say that we can see a reduction in prices. However, if the government seeks to introduce GST with a higher rate, this might be lost.

LESS COMPLIANCE AND PROCEDURAL COST:

Instead of maintaining big records, returns and reporting under various different statutes, all assessees will find comfortable under GST as the compliance cost will be reduced. It should be noted that the assessees are, nevertheless, required to keep record of CGST, SGST and IGST separately.

MOVE TOWARDS A UNIFIED GST:

Internationally, the GST is always preferred in a unified form (that is, one single GST for the whole nation, instead of the dual GST format). Although India is adopting Dual GST looking into the federal structure, it is still a good move towards a Unified GST which is regarded as the best method of Indirect Taxes.

The following are the some more salient features of the proposed pan-India Goods and Services Tax regime that was approved by the Lok Sabha by way of an amendment to the Constitution:

1. GST, or Goods and Services Tax, will subsume central indirect taxes like excise duty, countervailing duty and service tax, as also state levies like value added tax, octroi and entry tax, luxury tax.
2. The final consumer will bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.
3. As a measure of support for the states, petroleum products, alcohol for human consumption and tobacco have been kept out of the purview of the GST.
4. It will have two components - Central GST levied by the Centre and State GST levied by the states.
5. However, only the Centre may levy and collect GST on supplies in the course of inter-state trade or commerce. The tax collected would be divided between the Centre and the states in a manner to be provided by parliament, on the recommendations of the GST Council.
6. The GST Council is to consist of the union finance minister as chairman, the union minister of state of finance and the finance minister of each state.
7. The bill proposes an additional tax not exceeding 1% on inter-state trade in goods, to be levied and collected by the Centre to compensate the states for two years, or as recommended by the GST Council, for losses resulting from implementing the GST.

CHALLENGES OF GST IN INDIAN CONTEXT

There are various speculations about the implementation of the Goods and Services Tax (GST) in India. Due to the country's political environment, it is not yet clear when the tax will be applicable. The states are also uncertain about its impact on their revenue. The Central Government has already promised to compensate the states if the revenue goes down, but some people might still feel uneasy.

The GST is a very good type of tax. However, for the successful implementation of the same, there are few challenges which have to face to implement GST In India.

FOLLOWING ARE SOME OF THE FACTORS THAT MUST BE KEPT IN MIND ABOUT GST:

1. The implementation of the Goods and Services Tax (GST) should be carried out in all the states at the same rates so that businesses can comply with the law. This will be beneficial for investors as it eliminates the need for them to consider the tax factors when making decisions.
2. The GST should clearly state the taxable event. The CENVAT credit and Point of Taxation rules are only introduced for this purpose. They should be further refined and put in place without ambiguity.
3. The goods and services tax (GST) is a destination-based tax. It should be clearly identified as to where the goods are being transported. This can be challenging when it comes to services as it can be hard to determine where a particular service is provided. This should be dealt with properly.
4. There is a lot of work to be done to raise awareness about the advantages of GST, and professionals such as ourselves need to take on this responsibility.

CONCLUSION

A well-designed tax system can help boost the country's economic growth and improve the efficiency of its operations. It should also ensure that the distribution of income is carried out in a balanced manner. The implementation of the Goods and Services Tax (GST) is expected to have a significant impact on the country's economy and international trade. There has been a lot of criticism and appraisal of the proposed tax regime. The new tax is expected to be a major step towards a comprehensive reform of the country's indirect tax system. It is also expected to be a significant improvement over the current sales tax system. The Goods and Services Tax (GST) is a major step forward in simplifying and transparency regarding the taxation of all goods and services. It is a single rate that will treat all goods and services as if they were the same. This eliminates the need for special treatment for some services and goods. The implementation of the Goods and Services Tax (GST) can help reduce the number of cases related to classification issues. It is also expected that the new tax system will lead to various commercial benefits, which were not included in the VAT system, which can help boost the country's economic development. This can be beneficial for the common consumers, trade, agriculture, and the central and state governments.

The Goods and Services Tax (GST) is expected to hit the doors of India very soon. This will require future torch bearers of the industry to be well-equipped and ready to handle the various changes that will happen in the country. India is slowly moving towards becoming a leader in the field of managerial practices, taxation, and corporate laws.

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