

# GST- A Tax Reform, Impact on The Indian Economy



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## Abstract

India follows federal structure tax system that comprises of two categories: Direct tax and Indirect tax. Direct Tax is a tax, the burden of which cannot be shifted to anybody else and thus it levied on the assessee and has to be borne by the assessee himself. On the other hand, Indirect tax is a tax which is levied on one person, but the burden of tax keeps shifting to another person in the production/ supply chain and is finally borne by the ultimate consumer.

GST (Goods and Service tax) is the indirect tax reform in the Indian economy. The reform process was started in 1986 by Vishwanath Pratap Singh, Finance Minister in Rajiv Gandhi's government with the introduction of the Modified Value Added Tax (MODVAT). Despite of the success of VAT there are certain limitations. To solve these limitations, GST was introduced in the budget of 2009 by the Finance minister Pranab Mukherjee. It was rolled as the Constitution (One Hundred and First Amendment) Act 2017, following the passage of the Constitution 122<sup>nd</sup> Amendment Bill. it was implemented from 1<sup>st</sup> July, 2017. It is the giant tax structure which replaces VAT (Value Added Tax), additional Custom Duty, Services Tax, Octroi, etc. It is the biggest tax reform which applies on all the stages of production. GST is expected to become a business friendly, so that it will enhance the economy. But it has many pros and cons. It would be interesting to understand whether it will encourage or discourage the economy.

**Keywords:** Goods And Service Tax, Value Added Tax, Economy, Reforms, CENVAT, Transpiracy.

## Introduction

India's taxation powers are shared between the Central Government and the State Governments. Both the Central Government and the State Government are empowered to levy respective taxes as per the Constitution of India. Presently, Indirect Taxes treat Goods and Services differently.

## Goods Attract

1. Excise Duty at the manufacturing stage
  2. VAT at the time of sales within the same state.
  3. CST at the time of sales from one state to the another state.
  4. Import/Export Duty at the time of imports into or exports from India
- Services attract only one levy i.e. Service Tax on the provision of taxable services in India.

After that India moved to VAT in a small although notable way in 1986

The successful implementation of the Value Added Tax (VAT) by the states in 2005 is herald as one of the boldest innovative Indirect Tax Reform in the independent India. The design of the VAT was based on a study "Reform of Domestic Trade Taxes in India: Issues and Options" done by the Late Dr. Amaresh Bagchi. VAT is introduced by merging the services and goods, these multiple levies become the part of the VAT and tax system will become simple. So, it is a multi-stage tax levied on all the stages of the production and distribution of the product. It is collected in instalments at the each stage of production and distribution. It makes the tax system more difficult to understand because its rate varies from one country to another. Therefore it can be regressive in nature. Some limitations of the Indirect Tax (VAT) like increase inflation, costly to implement as it is based on Full billing system, favours capital-intensive firm. So to overcome these deficiencies the present Union Finance Minister Arun Jaitley also heralds the introduction of the new indirect tax from April 2016 as the biggest tax reform in the history of India since independence.

**Objectives of the Study**

1. To study and understand the concept of Goods and Services Tax (GST) and its impact on Indian Economy.
2. To study the different rates of GST.
3. To study the benefits of goods and services tax to the different sectors.
4. To study the perceived benefits of GST on business, industry and consumer.

**Review of Literature**

A chronological description of Literature and findings of authorities are being enlisted as follows:-

1. Goods and Service Tax (GST) Bill 2016 : Gearing up for the next big wave in the Indian economy By Piyush Charan, Roha Benjamin and Zohaib Hasan Khan. They Examine deeply the Indian taxation system, Problems of that system and why India have to adapt the system of GST and they also discussed the history of GST in foreign countries.
2. A study on implementation of GST in India, Prospects and challenges by Lourdunathan F and Xavier P in their research Paper compare Indian GST system with other foreign countries like china, Japan, Iran etc. they also discussed the challenges to implement GST in India. And how these challenges can meet out.
3. The effect of the GST on Indian Growth by evavan LeemPut and EllenA. Wiencek examine thoroughly the current tax system, Tax system under GST, they also discussed the model of GST. How it effects on India Growth Positively or Negatively.
4. GST in India-An over view by Vijay Kumar Sarabu discussed the comprehensive tax mechanism of India where all Indirect taxes are clubbed into one. Called GST, the Prospect, challenges the Rates and Impact on Indian Economy has been discussed thoroughly.
5. Basic concepts and features of Goods and service tax in India by Grish Garg. International

Journal of Scientific Research and Management 2014; 2 (2); 542-549 discussed in detail contented of GST. How India can implement, what are possibilities of Rates and the ways to Meet out the challenges of GST.

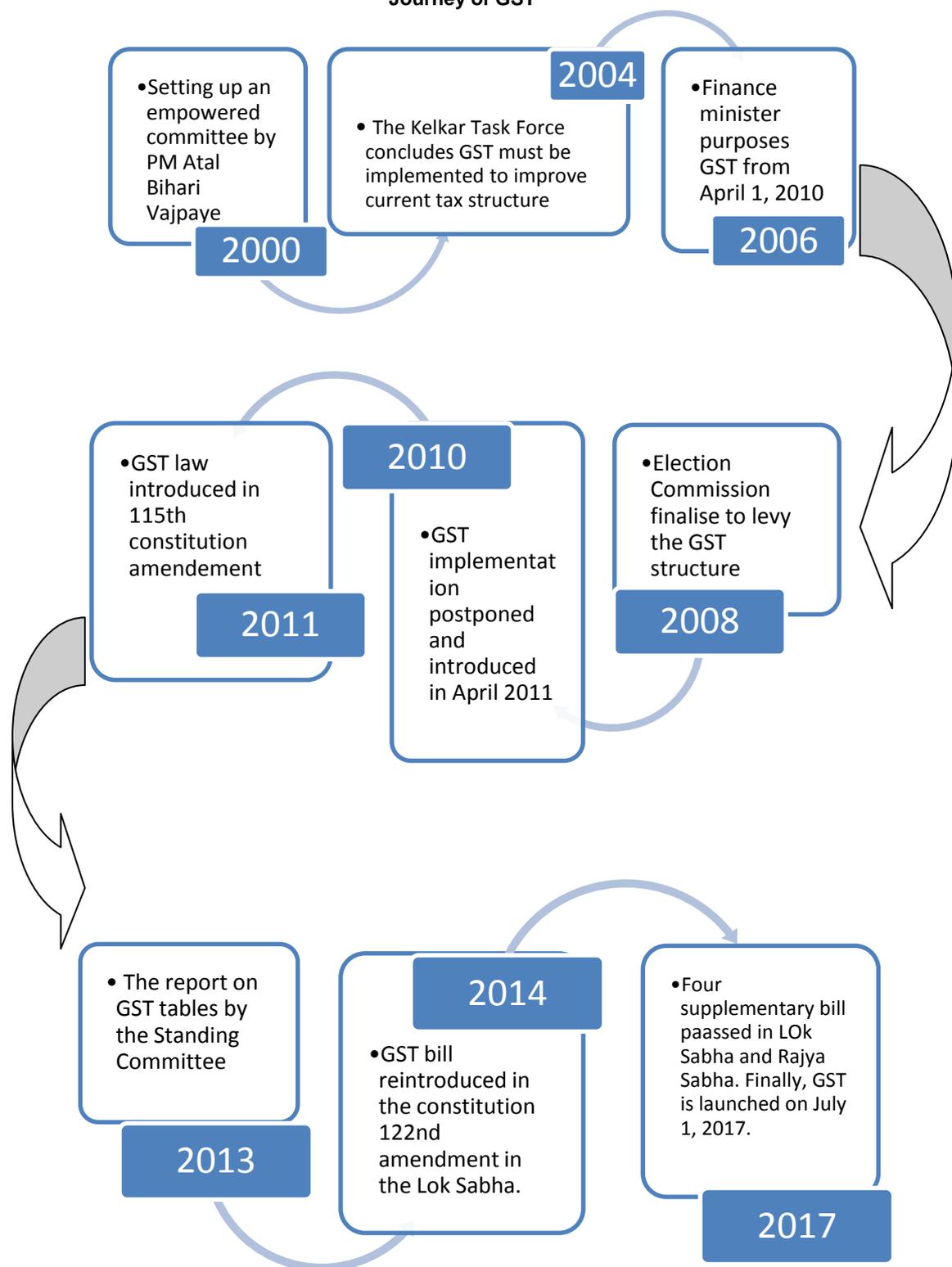
**Research Methodology**

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. Introducing GST and Its Impact on Indian Economy.

**Goods and Services Tax (GST) In India**

The idea of GST was first mooted in India by Vajpayee Government started discussion on GST by setting up an Empowered Committee in 2000. Then Kelkar Committee in year 2004, Dr Vijay Kelkar recommended national GST. The first announcement for introduction of GST was made in budget speech on 28-2-2006 by the then Finance Minister, P Chidambaram. CST was reduced from 4% to 3% in 2007. Further CST rate was reduced to 2%. It was proposed to introduce nationwide GST w.e.f. 1-4-2010. This target data could not be achieved due to political differences. Task of designing GST was given to empowered committee of State Finance Ministers. The first discussion paper was released by Empowered Committee on 10<sup>th</sup> November, 2009. The earlier provisions of Constitution did not provide for imposition of GST. Hence, Constitutional Amendment was required before introduction of GST. Constitution (One Hundred and First Amendment) Bill, 2014 was introduced in December, 2014 by Shri Arun Jaitley, Finance Minister, Government of India. Constitution (One Hundred and First Amendment) Bill, 2014 relating to GST was passed by Lok Sabha on 7-5-2015. It was passed by Rajya Sabha on 3-8-2016 with certain amendments. Finally, GST is launched on July 1, 2017

**Journey of GST**



**GST in Foreign Countries**

The concept of Goods and Services Tax (GST) was first conceived by the French taxman Apparatchik Maurice Laure in 1954. Then more than 160 countries implement this new tax in various form

including the European Union and Asian countries. In many countries, this new tax GST has been introduced as a unified system.

Country	Introduction Year	Rate of GST (%)
France	1954	19.6
China	1980	5.0
New Zealand	1985	12.5
Thailand	1991	7.0
Singapore	1994	5.0
United Kingdom	1994	17.5
Australia	2000	10.0

**Components of GST**

There are three types of applicable taxes under the GST:

1. Central goods and services tax (CGST) which was collected by central government,
2. State goods and services tax (SGST) which was collected by the state government,
3. Integrated goods and services tax (IGST).

**Old Regime**

Sale within the State – VAT + Central Excise/Service tax

Sale to another State – Central Sales Tax + Excise/Service Tax

**New Regime**

Sale within a State – CGST + SGST - the revenue will be shared equally between the Central and State Government.

Sale to another State – IGST - In this case only one tax is applied and the revenue will be shared by the centre based on the destination of the goods.

**Rates of GST**

On May 19, 2017, the Goods and Services tax council finalised the rates of tax for all goods and services. The chairman of the GST council is Arun Jaitley, the finance minister. The cess of GST will include Swachh Bharat cess, Krishi Kalyan cess and education cess. Different rates charged on the different items.

1. Goods and services are charged according to following rates: 0%, 5%, 12%, 18% and 28%.
2. The first slab of GST 5% charged on the items of consumption like packaged products while on biscuits – 18%
3. Two rates are charged on the fast moving consumer goods – 12% and 18%
4. The GST on Gold – 3% and the Excise – 1%
5. GST on rough diamonds – 0.25%
6. GST is fixed for ultra luxury items/Demerit and Sin Goods like expensive car, tobacco, bidis – 28% + GST cess
7. The maximum cess on aerated water, mineral water, flavoured water, and luxury cars – 15%
8. The maximum cess on Pan Masala – 135% while on cigattes – 290%
9. GST on bidis – 28% while cess – 0%
10. Company having turnover of less than 20 lakh has been exempted

**Exemption from GST****Goods**

Food Grains, Cereals, Milk, Common Salt.

**Services**

Education, Health Care, Residential Accommodation.

**Updated GST Rates on July 27,2018**

1. Food grinders, lithium ion batteries, vacuum cleaners to attract 18% GST
2. Sanitary napkins, phool bhari jhadoo, rakhi will attract zero GST
3. GST rate on handloom 'dari' is cut to 5% from 12%

New GST rates announced last week kicked in today. Items of common use such as sanitary napkins, footwear and refrigerators may get cheaper with the GST (Goods and Services Tax) rates cut on about 88 items coming into effect today. Refrigerators, washing machines, small screen TVs, storage water heaters, paints and varnishes will now attract 18 per cent GST. Food grinders, lithium ion batteries, vacuum cleaner and hand dryers will attract 18 per cent GST from today, as against 28 per cent previously.

**GST on the following items has been slashed from 28% to 18%**

1. Paints and varnishes (including enamels and lacquers)
2. Glaziers' putty, grafting putty, resin cements
3. Refrigerators, freezers and other refrigerating or freezing equipment including water cooler, milk coolers, refrigerating equipment for leather industry, ice cream freezer etc.
4. Washing machines
5. Lithium-ion batteries
6. Vacuum cleaners
7. Domestic electrical appliances such as food grinders and mixers & food or vegetable juice extractor, shaver, hair clippers etc.
8. Storage water heaters and immersion heaters, hair dryers, hand dryers, electric smoothing irons etc.
9. Televisions up to the size of 68 cm
10. Special purpose motor vehicles. e.g., crane lorries, fire fighting vehicle, concrete mixer lorries, spraying lorries
11. Works trucks (self-propelled, not fitted with lifting or handling equipment) of the type used in factories, warehouses, dock areas or airports for short transport of goods.
12. Trailers and semi-trailers.
13. Miscellaneous articles such as scent sprays and similar toilet sprays, powder-puffs and pads for the application of cosmetics or toilet preparations

**GST Advantages**

1. GST is a transparent tax and also reduce number of indirect taxes.
2. GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing business will be lower.
3. Benefit people as prices will come down which in turn will help companies as consumption will increase.
4. There is no doubt that in production and distribution of goods, services are increasingly used or consumed and vice versa.
5. Separate taxes for goods and services, which is the present taxation system, requires division of transaction values into value of goods and services for taxation, leading to greater

- complications, administration, including compliances costs.
- In the GST system, when all the taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing and services.
  - GST will be levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail outlets). This will help in removing economic distortions and bring about development of a common national market.
  - GST will also help to build a transparent and corruption free tax administration.
  - Presently, a tax is levied on when a finished product moves out from a factory, which is paid by the manufacturer, and it is again levied at the retail outlet when sold.
  - GST is backed by the GSTN, which is a fully integrated tax platform to deal with all aspects of GST.

**GST Disadvantages**

With the rates of GST, we can see some negative effects in the economy. Without proper awareness of new tax structure, there will be inflationary situation in the economy. There should be proper management so that it will create a business friendly environment.

- Some Economist say that GST in India would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
- Some Experts says that CGST(Central GST), SGST(State GST) are nothing but new names for Central Excise/Service Tax, VAT and CST. Hence, there is no major reduction in the number of tax layers.
- Some retail products currently have only four percent tax on them. After GST, garments and clothes could become more expensive.
- The aviation industry would be affected. Service taxes on airfares currently range from six to nine percent. With GST, this rate will surpass fifteen percent and effectively double the tax rate.
- Adoption and migration to the new GST system would involve teething troubles and learning for the entire ecosystem.
- The biggest benefit of GST is an elimination of multiple indirect taxes. All taxes that currently exist will not be in picture. This means current taxes like excise, octroi, sales tax, CENVAT, Service tax, turnover tax etc will not be applicable and all that will fall under common tax called as GST.
- For a common man, GST applicability means the elimination of double charging in the system. This will reduce the price of goods and services & help common man for saving more money.
- It is expected that price of FMCG products, small cars, cinema tickets, electrical wires etc is expected to reduce.
- For a businessman, GST will be a boon. No multiple taxes means compliance and

documentation will be easy. Return filing, tax payment, and refund process will easy and hassle free.

- As GST will reduce cost of product it is expected that demand of product will increase and to meet the demand, supply has to go up. The requirement of more supply will be addressed by only increasing employment.
- GST is a single tax which will include various taxes, making the system efficient with very little chances of corruption and Tax Evasion.

**Conclusion**

GST is definitely a good move to reform indirect taxation in India and has positive effects on GDP growth, Tax revenue, exports, employment and so many. But even after a decade Government have failed to implement it, due to variety of reasons like, compensation mechanism for the states, GST rates, and issues relating to food products, petroleum, and tobacco and many political issues as well. With lots of flaws in the present tax structure which is affecting the growth of economy, there is a need to implement GST and to streamline our growth with global economy. The implementation of GST would pave way for a simple and understandable tax structure, and also help in avoiding any evasion taking place at any level. Thus, lot being said and done, an appropriate implementation would lead to actually understand whether "GST is a boon or bane".

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