

# Impact of GST on Indian Economy Pros and Cons

## Abstract

Goods and Services Tax commonly known as GST is a single tax on the supply of goods and services from the manufacturer to the consumer. Credits of taxes paid at each stage of GST will be available in the subsequent stage of value addition, which makes it essentially a tax only on value addition at each stage. This paper attempts to highlight the positive and negative impact of the GST in the Indian Tax System.

**Keywords:** Indian Economy, Impact of GST, Indian Tax System, Mechanism of GST, Prices, Feature, Multistage.

### Introduction

Goods & Services Tax is a comprehensive, multistage tax which is levied on every value addition. Goods and Service Tax (GST) implemented in India to bring in the 'one Nation one tax' system, but its effect on various industries are different. This differentiation can be seen according to whether the industry deals with manufacturing, distributing and retailing or is providing services.

### Objective of the Study

The study has following objectives:

1. To understand the concept of GST
2. To study different features of GST
3. To evaluate the advantages and challenges of GST
4. To provide information for further research assistance on GST

GST is a single indirect tax for the whole nation on the supply of goods and services from the manufacturer to the consumer. The NDA government introduced a modified version of the GST Bill in the Parliament which UPA government was unable to get passed and both houses passed it. Through GST, the government aims to create a single comprehensive tax structure than multiple taxes. Currently, tax rates differ from state to state but GST will ensure a comprehensive tax base with minimum exemptions so as to help industry as a whole in order to exercise its benefits of common procedures.

### Current Tax Structure in India

#### Central Taxes

1. Central Excise duty
2. Additional duties of excise
3. Excise duty levied under Medicinal & Toiletries Preparation Act
4. Additional duties of customs (CVD & SAD)
5. Service Tax Surcharges & Cesses

#### State Taxes

1. State VAT / Sales Tax
2. Central Sales Tax
3. Purchase Tax
4. Entertainment Tax (other than those levied by local bodies)
5. Luxury Tax
6. Entry Tax (All forms)
7. Taxes on lottery, betting & gambling
8. Surcharges & Cesses

#### Benefits of GST

1. Reduction in Prices for Consumers
2. Reduction in Multiplicity of Taxes and Double Taxation
3. Uniform Tax Rate in the nation
4. Better and broader Tax Base and reduction in black transactions
5. Free Flow of Goods and Services without Checkpoints
6. Easy to use Electronic Tax Compliance System

GST improves manufacturing activity and exports and it generates more employment helping in GDP growth of the country which leads to continuous economic growth. This will help in poverty eradication by way of



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generating more employment and adding financial resources. GST prevents multiplicity and cascading of taxes as Input Tax Credit will be available at every stage of supply of the process;

#### **GST Network (GSTN)**

GST Network (GSTN) has been set up by the Government as a private company under Section 25 of the Companies Act, 1956. GSTN would provide three front end services as;

1. Registration,
2. Payment and
3. Return to taxpayers.

Apart from providing above services to the taxpayers, GSTN would be developing back-end IT solutions for 25 States implementing GSTN. The migration of existing taxpayers has already started and Revenue departments of both Centre and States are pursuing the registered taxpayers to complete the formalities on the IT system operated by Goods and Services Tax Network (GSTN) for successful migration. Government has appointed 'Infosys' Ltd. as Managed Service Provider (MSP) for a period of five years for managing GSTN.

#### **Example of GST Calculation**

Let us assume that the GST is fixed at 5% suppose that the manufacturing cost of a Product A is 100 and assuming a GST of 5% the total amount is Rs. 105. The next stage of taxation would be when the Product is sold to consumers, for example it is sold at a price of 150, then the GST will charge another 5% on the difference of Rs. 150 and Rs. 105 i.e. only 5% on Rs. 45 which comes out to be Rs. 2.25. So the final price of the product A sold to the customer is Rs. 150 + Rs. 2.25 = Rs.152.25.

#### **Positive Impact of GST**

Almost every industry bodies are prepared for proper implementation of the GST, The nationwide GST will improve India's existing Taxation system and will combine factors of tax system into a single market and single tax system. In the medium-term impact of GST on macroeconomic indicators and its factors is expected to be extremely positive. GST will significantly reduce Inflation as cascading of taxes will be eliminated and it will prove out as better tax system in medium to long term.

#### **Negative Impact of GST**

India has adopted dual GST system instead of national GST which has made the tax structure of GST little complicated in India as far as implementation is concerned. The central Government will have to coordinate with different states and union territories for its smooth implementation. It raises various economic and political issues. The model of revenue sharing between the states and the centre

remains a matter of conflict. Service tax of 15% prior to GST would increase to 18-20% post GST. Prices of goods and services may come down and service industry will eventually bear higher taxes. Certain taxes would become more expensive. There are certain points which should be kept in mind while evaluating Impact of GST. These are:

#### **Proposed GST Rate Is Higher than VAT**

The rate of GST is proposed to be higher than the current VAT rate in India which although will be reducing the price of goods and services in the longer run. It will be of no use in cutting down prices of commodities.

#### **Dual Control**

A business will be controlled indirectly by both Centre and the State Government in all tax related matters. The State will lose autonomy to change the tax rate regulated by the GST Council.

Most manufacturing states may incur losses. But the government has proposed to compensate for those losses for a period of 5 years.

#### **Conclusion**

There are more than 100 countries where GST has already been implemented successfully. Some of the popular countries like Australia, Germany and Japan have been running GST for long. Implementation of GST impacts both positively and negatively. If we ignore negative aspects and implement positive aspects of GST then we are able to improve the health of the economy of the country. In order to measure the Impact the GST we have to wait and see longer term and the Government needs to communicate more and more about the systems. It comes as a good way to reduce the black money and efforts by the Government of India after the Demonetization of the money in 2016.

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