

Impact of G.S.T. in Indian Economy

Paper Submission: 15 /05/2020, Date of Acceptance: 23/05/2020, Date of Publication: 28/05/2020

Abstract

India has implemented Goods and Services Tax (G.S.T.) from July 1st, 2017. The implementation of G.S.T. is a very significant step in the history of Indirect Tax reforms in India. G.S.T. has been described as the biggest and the most ambitious tax reform which will introduce "One Nation One Tax". It involved bridging over of difference - ideological aspirational as well as regional.

Keywords: Indirect Taxes, Synergy G.S.T. Council, Transparent, Uniformity Competitiveness, Taxation, Steep Tax, Inflation, Inclusive Growth, Economic Development.

Introduction

Tax is the major source of revenue for the government. The development of any country's economy largely depends on the tax structure it has adopted. A good tax system raises the revenues needed to finance the government spending in a manner that is simple, equitable and growth friendly as possible. In India, the tax structure is divided into Direct and Indirect Taxes. While Direct Taxes are levied on taxable income earned by individual and corporate entities. And In Direct Taxes, the burden to deposit taxes is on the assessee themselves like Income Tax, Interest Tax etc. On the other hand Indirect taxes are levied on the sale and provision of goods and services respectively and the burden to collect and deposit taxes is on sellers instead of the assessee directly.

The implementation of Goods and Services Tax (G.S.T.) from 1st July 2017 in India is a key milestone achieved by central and state governments in a synergy that has created a history. The tax came into effect through implementation of 101st Amendment Act of constitution by Indian Government¹. G.S.T. replaced existing multiple Taxes levied by the Central and State Governments. The taxes that were eliminated at the central level were central Excise Duty, Additional Excise Duty, Service Tax, Additional Customs Duty, Special Additional Duty of customs. And the taxes that were eliminated at the state level were state level added Tax, Purchase Tax, Central Sales Tax (levied by Centre collected by the states), Luxury Tax, Entertainment Tax etc. By amalgamating a large number of central and state Taxes into a single tax and allowing set-off prior stage taxes, it would mitigate the ill-effects of cascading and pave the way for a common national market.² The 101st constitutional Amendment related to G.S.T. also provided the mechanism of G.S.T. between centre and states as well as among the states.³ A GST council would comprising the Union Finance Minister, who will be the chairman of the council, the Minister of state (Revenue) and the state Finance/taxation ministers to make recommendations to the union and states on major issues like the taxes cases and surcharges levied by the center the states and the local bodies which may be subsumed under GST, the goods and services that may be subjected to or exempted from the GST and any other matter relating to G.S.T., as the council may decide. And as per the Goods and Services Tax (Compensation to states) Act, the Central Government will compensate the states for any case of revenue arising on account of implementation of G.S.T. for a period of 5 years.

Aim of the Study

Specifically, this paper discusses about the basics of G.S.T. and how its implementation can impact the key sectors of Indian Economy and ripple effect of same on Indian Consumers.

Benefits of G.S.T.

Introduction of G.S.T. would also make our products competitive in domestic and inter-national markets. Studies show that this would instantly spur economic growth. G.S.T. will bring benefits to all stakeholders of business and industry, government and the consumer.⁴

(a) For business & Industry - Impact of G.S.T. on business and Industry can be understood by the following points.



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- (i) Easy Compliance - A robust and comprehensive I.T. system is to be the foundation of G.S.T. regime in India. Therefore services such as registration, returns and payments would be available to tax payers online making compliance easy and transparent.
- (ii) Removal of Cascading - A system of seamless tax - credits throughout the value - chain and across boundaries of states would ensure that there is minimal cascading of taxes.
- (iii) Uniformity of tax states and structures - G.S.T. will ensure that indirect tax rates and structure are common across the country, thereby increase certainty and ease of doing business.
- (iv) Gain to manufactures and exporters - The subsuming of major central and state taxes in G.S.T., complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the International market and give boost of Indian exports.
- (b) For Central and State Government - Impacts of G.S.T. on Central and State Governments can be understood through following points -
 - (i) Simple and easy to administer - G.S.T. would be simpler and easier to administer than all other indirect taxes of the central and state levied so far.
 - (ii) Better control on leakage - Due to seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an inbuilt mechanism in design of G.S.T. that would incentivize tax compliance by traders.
 - (iii) Higher revenue efficiency - G.S.T. is expected to decrease the cost of collection of tax revenues of the government and will therefore leads to higher revenue efficiency.
- (c) For the consumer - Impact of G.S.T. on the consumer can be understood through following points -
 - (i) Single and transparent tax proportionate to value of goods and services - under G.S.T., there would be only one Tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.
 - (ii) Relief in Overall Tax Burden - Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers. Thus, G.S.T. will impact the overall taxation system of Indian economy. It will improvise the country's G.D.P. ratio and also will control inflation to a certain extent.⁵

Some Flaws in G.S.T.

Technicalities of G.S.T. implementation in India have been criticized by global financial institutions/industries, sections of media and opposition political parties in India. For one, the tax will not be imposed on highly lucrative and rent-seeking alcohol oil products and real estate industries. Shrinking the ambit of tax means giving up a good chunk of revenues. Also, a steep tax could easily

make some goods and services expensive - the government apparently favours an 18% G.S.T. rate - and stoke inflation⁶. Differences could easily flare up between the centre and states over the rate and tax sharing arrangements.

Similarly, implementing the complex new tax system could be fraught with glitches. Reports say only 20% of companies are actually getting ready for the tax. Also, more importantly G.S.T. by itself is no magic pill. India's debt-saddled state owned banks need to clean up their books and easy lending. The Government should move swiftly and imaginatively on creating jobs, boost agriculture and ensure stability for long term and inclusive growth.

World Bank's 2018 version of India Development update described India's version of G.S.T. as too complex noticing various flaws compared to G.S.T. system prevalent in other countries, the second highest-tax state among, a sample of 115 countries at 28%.⁷G.S.T.'s implementation in India has been further criticized by Indian businessmen for problems including tax refund delays and too much documentation and administrative effort needed. According to a partner at PWC India when the first G.S.T. returns were filed in August 2017, the system crashed under the weight of filing.⁸

Conclusion

The implementation of G.S.T. would pave the way for a simple and understandable tax structure and would also help in avoiding any evasion taking place at any level. G.S.T. will give Indian economy a strong and smart tax system for economic development. But for gaining those benefits, country will need to build a strong mechanism.⁹G.S.T. is not just a tax change but it is also a behavioural change. It's successful implementation will depend on how will we as a nation adapt the new requirements of doing business. Post the initial teething troubles, it is expected that G.S.T. will bring in much good for all sectors of Indian economy including F.M.C.G. industry and manufacturers.

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