GST & Indirect Tax Reform- Impact On Economy

Onkar Jadhav,
Student, Department of Economics, University of Mumbai

Abstract: GST is the most controversial tax revolution in Indian taxation history. The main purpose of this study is to find wither the GST has made impact on the economy as per expectations or just another tax. Why it take so much long time from 1999 to 2017 to just implementation? There are oppose by the opposition party normal people and even some economist also said GST won’t work as expected then to GST is been passed and does it working properly for India?

So finally on the historic midnight of 1st July 2017 it implemented GST had taken a long route to implement many economist finance minister and even different PM look after these there are many views and suggestion in the process.

From starting GST has made a change taxation policy there are many business come under the organized sector of tax. It will help the govt. to keep track of the records and unified tax also will help the business to gloom GST is making a one nation one tax policy in India.

Economy has a negative impact of GST in earlier stage the GDP is also decrease some organization have also suffered due to it many people lost their job due to firms is not able to work in taxes. But at the end GST now starting to help the economy as the Manufacturing sector started to gloom again India’s tax collection amount is starting rising.

I. Introduction

We have very complex tax structure in our country and as we are democratic country our state and central govt. are different and so tax also differ from state to state. So it take huge amount of time to unified all the tax which been collected by the state and country. The authority of levy a tax is derived from the Constitution of India which allocates the power to levy various taxes between the Central and the State As per Article 265 of Constitution “No tax shall be levied or collected except by the authority of law” Therefore each tax levied or collected has to be backed by an accompanying law, passed either by the parliament or the state legislature Tax policy in India is levied by the central and state government and local authorities also impose some tax on the people. Following is the table of some different indirect taxes imposed on people by both central and state government

Service Tax -
Service tax was a tax levied by Central Government of India on service provided or agreed to be provided. Presently from 1st June 2016 service tax rate has been increased to consolidated rate at 14% + 0.5% + 0.5% = 15% Dr. Raja Chelliah committee on tax reforms recommended to introduce service tax in 1994.

Diagram given below is service tax revenue in past years (InCrore)
Custom duty -
A custom duty is the indirect tax levied on the import and export of goods in the International trade. It includes both import and export duties but as export duties contributed only nominal revenue, due to raising competitiveness of exports. Import duties alone constituted major part of the revenue its most probably 10% but it varies. There are different types of custom duty few as follows
i. Basic Customs Duty
ii. Counter veiling Duty (CVD)
iii. Additional Custom Duty or Special CVD
iv. Safe Guard Duty
v. Anti Dumping Duty
vi. National Calamity Contingent Duty
vii. Education Cess on Custom Duty
viii. Protective Duty

Excise duty - An excise duty is on duty on manufactured goods which is levied at the moment of manufacture. The basic duty rate has been changes from 12% to 12.5% however education cess and higher education cess has been removed

Central Sales tax (CST) -
CST is a levy of tax on sales which are effected in the course of interstate trade or commerce. According to constitution any state should not impose tax on intrastate trade only central govt. have authority to do it.

The Central Sales Tax Act 1956, was passed to implementation of the tax and its vary from 5% to 12.5%
The tax imposed by the state government are:
Sales tax –
In Maharashtra sales tax was first introduce in erstwhile state of Bombay in 1964. It was then a single point levy at the rate of 6 paisa per Rupee payable at the last stage of sale. After recommendation of Babubhai Patel Taxaction Enquiry committee Bombay was made and Act was passed as Sales Tax Act 1959.

Maharashtra state – Division wise sales tax revenue gross receipts for the year 2005 - 06 to 2017 – 18 ( Up to July 2017 )

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mumbai</td>
<td>41558.35</td>
<td>44524.47</td>
<td>45797.70</td>
<td>53151.98</td>
<td>20893.04</td>
</tr>
<tr>
<td>Thane</td>
<td>2221.21</td>
<td>2584.83</td>
<td>2884.21</td>
<td>3505.05</td>
<td>1451.29</td>
</tr>
<tr>
<td>Thane Rural</td>
<td>926.46</td>
<td>815.69</td>
<td>946.85</td>
<td>1004.17</td>
<td>397.43</td>
</tr>
<tr>
<td>Raigad</td>
<td>3110.26</td>
<td>3715.21</td>
<td>4159.36</td>
<td>4790.28</td>
<td>1929.04</td>
</tr>
<tr>
<td>Pune</td>
<td>9330.82</td>
<td>10245.77</td>
<td>11015.21</td>
<td>12073.40</td>
<td>4632.50</td>
</tr>
<tr>
<td>Solapur</td>
<td>476.45</td>
<td>548.28</td>
<td>614.47</td>
<td>701.79</td>
<td>253.86</td>
</tr>
<tr>
<td>Nasik</td>
<td>3068.51</td>
<td>3306.90</td>
<td>3597.50</td>
<td>4071.80</td>
<td>1591.78</td>
</tr>
<tr>
<td>Dnule</td>
<td>686.55</td>
<td>697.02</td>
<td>670.95</td>
<td>750.03</td>
<td>313.41</td>
</tr>
<tr>
<td>Kolhapur</td>
<td>1725.40</td>
<td>1900.98</td>
<td>1940.45</td>
<td>2266.20</td>
<td>820.77</td>
</tr>
<tr>
<td>Nagpur</td>
<td>3207.27</td>
<td>3633.61</td>
<td>3925.79</td>
<td>4323.41</td>
<td>1683.30</td>
</tr>
<tr>
<td>Amravati</td>
<td>593.62</td>
<td>666.76</td>
<td>617.18</td>
<td>737.25</td>
<td>308.56</td>
</tr>
<tr>
<td>Aurangabad</td>
<td>2452.01</td>
<td>2711.72</td>
<td>2501.01</td>
<td>2536.44</td>
<td>964.60</td>
</tr>
<tr>
<td>Nanded</td>
<td>420.32</td>
<td>431.81</td>
<td>453.61</td>
<td>613.39</td>
<td>239.23</td>
</tr>
<tr>
<td>Total ( in CR)</td>
<td>69777.23</td>
<td>75783.06</td>
<td>79124.29</td>
<td>90525.19</td>
<td>35478.79</td>
</tr>
</tbody>
</table>

www.mahavt.gov.in

Department of Sales tax

Entertainment Tax –
This is a tax imposed by the government on the feature Films
Bihar = 50%
Delhi=20%
Karnataka=30%
Maharashtra=45% (nill for marathi films)
Maharashtra entertainment duty act 1923 was pass for this tax
In 16th Jan 2013 Movie ticket above Rs.251 and Rs.350 10% entertainment duty is imposed

<table>
<thead>
<tr>
<th>City</th>
<th>Entertainment tax rates on across various cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mumbai</td>
<td>25%</td>
</tr>
<tr>
<td>Pune</td>
<td>20%</td>
</tr>
<tr>
<td>Bengaluru</td>
<td>10%</td>
</tr>
<tr>
<td>Chennai</td>
<td>10%</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>20%</td>
</tr>
<tr>
<td>Mysore</td>
<td>20%</td>
</tr>
<tr>
<td>Kolkata</td>
<td>20%</td>
</tr>
<tr>
<td>Gurgaon</td>
<td>25%</td>
</tr>
<tr>
<td>Noida</td>
<td>25%</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>20%</td>
</tr>
<tr>
<td>Delhi</td>
<td>15%</td>
</tr>
<tr>
<td>Goa</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: Mera events

Entry tax –
Entry tax is a tax on the movement of goods from one state to another state. This is imposed by the state government.
It was introduce on 1st September 2000 its generally 5% and its varies

Taxes on Betting / Gambling –
As per section 115 BB of the Income tax Act the current rate of income tax (As on financial year 2016 – 17) On poker winnings or winnings from any such card games etc. is 30% however there is an education and higher education cess payable on the taxable amount and hence the total effective amount of tax payable is 30.90%
when applied it is applicable throughout India which replaced multiple cascading taxes levied by the central and state government. It was introduced as The Constitution ( One Hundred and First Amendment ) Act 2017. The GST is governed by a GST council and its chairman is the Finance Minister of India

Tax rates are as follows 0%, 5%, 12%, 18% and 28%
There is a special rate of 0.25% on rough and precious and semi precious stone and 3% on Gold

History of GST
- It was all started back in 1999 when PM Vajpayee and his Economic advisers I.G. Patel, Bimal Jalan and C. Rangarajan made first attempt to design GST
  - In 2000 PM Vajpayee set up a committee to draft GST law
  - Asim Das Gupta Finance minister of West Bengal has been keep to design GST model and the panel did 80% of today’s GST job
  - In 2004 a task force conclude GST must be implemented to improve current tax structure
  - In 2006 the Finance Minister is try to implement and introduce from 1st April 2010 but failed
  - In 2007 to try to implement the GST Government reduce CST (Central Excise Duty) from 4% to 3%
  - In 2008 Duel GST model will be applicable in India is fixed
  - In 2010 Project to computerize commercial taxes launched but GST implementation postponed
  - In 2011 Constitution Amendment bill to enable GST law introduced
  - Standing committee begins discussion on GST but stalled it over clause 279B in 2012
  - In 2013 standing committee presents its report on GST
  - 2014 GST bill is been reintroduce in the Parliament by finance minister
  - Finance Minister of West Bengal Amit Mitra was become the head of GST department
  - In 2015 GST passed in Lok Sabha but failed in Rajya Sabha
  - In 2016 GSTN goes Live
  - In 2016 Amendment model GST law passed in both houses
  - In 2017 four supplementary GST bills passed in Lok Sabha and approved by the cabinet
  - Rajya Sabha also passed four supplementary GST bills and GST implemented on 1st July 2017 (Except J&K but then later J&K also accept it)

III. GST Model
GST replaced several former taxes and levies which is implemented by central and state also.
The tax between of transactions of goods have also been removed and come under one head GST
It levied on all transactions such as sales, transfer, purchase, barter, lease and import and export
As we know India has adopted the duel model of GST
That means we will pay tax to the both central as well as state government to do it we have three terms:
CGST –
CGST means Central GST this amount will be payable to the central government
SGST –
SGST means State GST this amount will be payable to state government
IGST –
IGST means Integrated GST this amount will be payable to state government

Example –
1. If a goods is made in one state and then sell in the same state then CGST and SGST will be applicable and total tax amount will be distributed in half and each half will be received as CGST and SGST

If a person buys CCTV camera then he have to pay 18% tax so then CGST will be 9% and SGST will be 9% On goods and that will mention in bill separately

2. If a good is made in a state and then sell it in another state then only IGST will be applicable and whole amount of tax will be given to Central government.

IV. Impact Of GST On Manufacturing Sector
As we know the Indian economy is been divided into three parts Agriculture, Service and Manufacturing.
Manufacturing has emerged as one of the high growth sector in India. PM of India Mr. Narendramodi had launched “Make in India” to increase the sector and to become worlds 5th largest manufacturing country by 2020.

GST is one of the key policy charges that will have a direct impact on manufacturing establishment. Due to GST complex tax structure has been damper

Following GST has positive impact on manufacturing sector

Following are few reasons how it affects the manufacturing sector

1. Restricting of supply chain –
   To align with the GST law, business will be required to realign their supply chains. However, this is a blessing in disguise. Till date, most supply chain structuring has been designed around. With a single tax regime this will change and supply chain structure will focus on driving business efficiencies

2. Removal of Cascading effects –
   The old tax regime does not allow manufactures to claim tax credit on inter-state transaction taxes such as octroi, CST etc. This results in cascading of taxes an extra cost to the manufacturing company. And the manufacturing end up with transferring to customers. the unified GST regime will eliminate multiple taxes and reduction of price

3. Single registration process –
   The old regime required manufactures to register each manufacturing facility separately, even in same state GST will simplify the plant registration process by allowing single registration process.

4. Improve cash flow –
   Under the new tax laws, manufactures can claim input tax credit on input goods, which seems to be a positive sign for cash flow.

5. Entry tax sub summation –
   The Subsuming of the entry tax for inter-state transfer is a key reason for reduction cost of goods and service for example if one good is transfer from one state to another then the entry tax rate 5% of value of goods and due GST its get easy

6. Removal of multiple valuation –
   In old tax there is a different amount for same goods in different states and due to GST there will be a single tax across the nation so the price is been unified.
Above is the percentage that can be save after application of GST

<table>
<thead>
<tr>
<th>Segment</th>
<th>Current levies</th>
<th>Proposed GST rate</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Central Excise</td>
<td>VAT</td>
<td>Total</td>
</tr>
<tr>
<td>Small passenger cars (eg - &lt; 1200 cc petrol and &lt; 4000 mm)</td>
<td>8.00%</td>
<td>12.50%</td>
<td>20.50%</td>
</tr>
<tr>
<td>Mid-size/ luxury passenger cars (eg -&gt; 1500 cc)</td>
<td>24.00%</td>
<td>12.50%</td>
<td>36.50%</td>
</tr>
<tr>
<td>LCVs</td>
<td>8.00%</td>
<td>12.50%</td>
<td>20.50%</td>
</tr>
<tr>
<td>HCVs</td>
<td>8.00%</td>
<td>12.50%</td>
<td>20.50%</td>
</tr>
<tr>
<td>Tractors</td>
<td>Nil</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
</tbody>
</table>

Illustration does not consider the following – (a) Other additional levies. Eg – NCCD, Auto cess etc. (b) Cascading impact of taxes. All goods, except tractors, are assumed to be taxable at highest GST rate proposed. It is assumed that tractors would continue to be exempt from CGST.
Indian manufacturing sector’s gross value added at basic prices based on 2011-12 price series was US$ 350.4 billion in 2016-17
- Manufacturing sector grew at CAGR of 9.87% between FY 12 and FY 17
- The sector grew 9.33% in FY 17.

Manufacturing Sector performing with the other sector
- Indian manufacturing sector recorded highest gross capital formation behind real estate at US$ 102.96 billion in 2015-16
- The sector’s contribution to the Indian Gross Domestic Product was 16.51% in 2016

1. Impact of GST on service sector
Indirect taxes have always been contributing more than direct taxes to Governments revenue. Services solely contributed a major contribution of service in tax also
Service sector does not only dominate the GDP contribute but also attracts the foreign investment in economy
The GST council has decided in its 22nd meeting that presently, anyone making inter-state taxable supplies, except inter-state job worker, is compulsorily required to register, irrespective of turnover, It has now been decided to exempt those service providers whose annual aggregate turnover is less than Rs. 20 lakh (RS. 10 lakh in special category states except for J&K) form obtaining registration even if they are making inter-state
taxable supplies of service. This measure is expected to significantly reduce the compliance cost of small service providers.

A GST council has changed the rates on services in 22nd meeting held on 6th October 2017 which include changes in service below.

**GST Rates on Services**

The following decisions taken by GST council under Chairmanship of Union Finance Minister Shri Arun Jaitley on 6th Oct. GST rates on job work service is being rationalize as follows

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Description of Service</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Job work services in relation to all products falling in Chapter 71 (including imitation jewellery)</td>
<td>5%</td>
</tr>
<tr>
<td>2</td>
<td>Job work service in relation to food and food products falling under Chapters 1 to 22 of the HS code (except packing of processed milk into packets)</td>
<td>5%</td>
</tr>
<tr>
<td>3</td>
<td>Job work service in relation to products falling under Chapters 23 of the HS code except dog and cat food put up for retail sale</td>
<td>5%</td>
</tr>
<tr>
<td>4</td>
<td>Job work in relation to manufacture of umbrella</td>
<td>12%</td>
</tr>
<tr>
<td>5</td>
<td>Job work in relation to manufacture of clay bricks falling under</td>
<td>5%</td>
</tr>
<tr>
<td>6</td>
<td>Service by way of printing on job work basis or on goods belonging to others in relation to printing of all goods falling under chapter 48 or 49</td>
<td>5%</td>
</tr>
<tr>
<td>7</td>
<td>Service by way of printing on job work basis or on goods belonging to others in relation to printing of all goods falling under chapter 48 or 49</td>
<td>12%</td>
</tr>
<tr>
<td>8</td>
<td>Service by way of printing on job work basis or on goods belonging to others in relation to printing of all goods falling under chapter 48 or 49 other than those which cover under 6 &amp; 7</td>
<td>18%</td>
</tr>
<tr>
<td>9</td>
<td>Service by way of printing on job work basis or on goods belonging to others in relation to printing of all goods falling under chapter 48 or 49 which attract GST 5% or nil, paper used for printing belong to printer</td>
<td>12%</td>
</tr>
<tr>
<td>10</td>
<td>Service by way of printing on job work basis or on goods belonging to others in relation to printing of all goods falling under chapter 48 or 49 which attract GST 12% , paper used for printing belong to printer</td>
<td>12%</td>
</tr>
<tr>
<td>11</td>
<td>Service by way of printing on job work basis or on goods belonging to others in relation to printing of all goods falling under chapter 48 or 49 which attract GST 18% paper used for printing belong to printer</td>
<td>18%</td>
</tr>
<tr>
<td>12</td>
<td>To issue a clarification with regard to classification of printing products</td>
<td></td>
</tr>
</tbody>
</table>

In previous tax regime service tax was applicable at rate of 15% on service rendered which include 0.5% for swatch bharat cess and 0.5% for krishi kalyan cess. It has been extended at 18% making the service and works contracts costlier. Revenue sector also mentioned the level of taxation has been increased in last GST structure. In the previous tax system both central and state govt. had right to collect tax according to their rights but with the introduction of GST regime, the double taxation effects due to disputed goods and service in the previous tax system has been eliminated.

Telecom, IT-BPM showcase worthy performance in FY 17 (Ref. Table 1)

- Telecom with increase in connection reflection of Jio effect
- Aviation passenger increased 17.3% in FY 17
The share of the service sector is 60.7% in 2016-17.

In 2016-17 growth rate of FDI inflow reduce to 8.7% due to negative growth.

2. Other side of GST

“Different taxes confused foreign investors; we are getting rid of it” - PM Narendra Modi

As per PM Modi says there are different tax which influence companies to established plants in India which include different taxes in different states and different registration process in every state which led to cascading effect of tax and due to different process more time also invested.

Due to this and many other factors such as unskilled labor and lack of infrastructure are also sum reasons which led to the shifting of companies in other countries.

So due to GST taxation policy and registration process is also get simple and it not only save the cascading effects but also save the valuable time spent on the filing form.

In GST most of work can be done online and it can led to removal of officer raj.

There is always two side of coin.

Indian exports were not doing particularly well in the pre-GST months of the year but the rate of export growth in rupee terms slowed in March – July and raise again in August.

Economic activity in the country lost some peace amid GST related disruption but underlying growth momentum remains strong and country may clock 6.7% growth this fiscal year says Morgan Stanley report.
India’s economic growth slipped to three year low of 5.7% during April – June
But in India implementation of GST was not smooth the Govt. have to face various issues there are some organizations which oppose the GST that are follows :-

On 16th June 2017 Traders with support of 100 traders association hit the street in Gujarat protesting against GST. The group of traders want the withdrawal of GST of 5% on cloths
On 9th Oct. 2017 Truckers held the strike of 2 days it was called by the All India Motor Transport Congress (AIMTC) protesting against the GST on Diesel
On 21st Aug. 2017 Bengal’s Sweet shops stayed shut to protest against GST. 1.5 lakh shops closed for 24 hours. They protesting against the GST applied on chocolate sweet 28%
On 5th July 2017 Tamil Nadu Cinema halls shut down to protest against GST of 18% on tickets below Rs.100 and 28% on tickets above Rs.100

V. Conclusion
As per my papers GST is really become a game changer. The tax collection amount in India is been raised significantly as per Nitiayog. Some organizations have suffer in starting stages as the website of GST is been crashing in 1st starting months but the website is back on track.
Due to GST and Make in India campaign more foreign companies is now taking interest in India.
As the PM Modi said its India’s biggest move since Independence and it’s not just a tax but a step towards economic reform. Buyers will get benefit, more undisclosed organizations and goods can be monitored and due to it there will be less tax evasion.
Overall GST is good for India. It need some time show up his effects but India will be benefited.

Source