

## IMPACT OF GOODS AND SERVICE TAX ON THE INDIAN ECONOMY

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**Abstract:** The fundamental objective of Goods and Service Tax is to make uniform the scattered indirect tax system in India and avoid the cascading effect in taxation. The impact going to make by GST will be a transformation in the entire tax system in India. GST becomes a reality today. GST helps in building new India through one nation, one tax and one market. GST - A Boon for households. India is going to experience the major change in the collection of tax after implementing GST. A comprehensive dual Goods and Service Tax has replaced the complex multiple indirect tax structure from 1<sup>st</sup> July, 2017. The research paper highlights on the economic consequences of GST and its impact on the Indian economy. The research is an exploratory research and the data collection is done mainly from the secondary data. The study found that, GST will widen the tax base, improve tax compliance and will remove unhealthy competition among states.

**Key Words:** Goods and Service Tax, India, Economy, Tax rates.

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### I. INTRODUCTION

Goods and Service tax was introduced to put an end to multiple taxes like CST, VAT, Service tax, Sales tax, Central sales tax which are levied on different products, starting from the source of manufacturing till it reaches to the end consumer which makes movement of goods and doing business very hard. At present goods and services are taxed differently and also at many levels but after the GST the goods and services will be treated equally and multiple level taxation will be significantly reduce this will eventual lead to less corruption. GST will reduce complexity in taxation and help businesses. Most of the companies don't want to manufacture goods in India because of complexities in the taxes they eventually try to find some shortcuts and this often leads to more corruption.

In India there are multiple indirect taxes which are taxed by different authorities have no mechanism to check unreported income, as tax laws such as Excise, VAT, Service tax etc but however after GST the goods and services will be taxed from the wholesaler to the consumer level even a penny will be tracked. If a wholesaler sold goods to a consumer, it is possible to wipe this purchase off the books in today's tax regime. However, under the GST regime, an itemized trail of transactions shall be available on a real time basis, due to which back dated transactions and entries to avoid taxes will be further restricted.

Usage of PAN card and Aadhar card will be more frequent and will be required to file GST returns, this will help the income tax department to track transactions, which it is unable to do today and further data will be shared between multiple administrative authorities such as RBI, import etc. There can be more data mapping for audit by the revenue authorities. Bringing sectors like real estate and precious metals such as gold sectors within the ambit of GST will help to track tax defaulters in these sectors.

The GST network is designed to capture all transaction details up to invoice level. Hence, one can't escape the inputs or services used in providing the goods or services. The paper documentations are to be eliminated completely. All the returns of the taxpayers shall be filed online in the GST regime. They would also get their refunds, orders etc online. This will reduce the interface between assesses and officers, which would reduce corruption.

### II. NEED FOR THE STUDY

The concept of goods and service tax is one of the biggest tax reforms in decades around the world, but India has been taking a step to meet its target in rolling out goods and service tax. Hence the present study intends to focus on understanding the concept and impact goods and service tax on the Indian economy.

### III. OBJECTIVES OF THE STUDY

1. To study the concept of goods and service tax.

2. To study the GST impact on the Indian economy.
3. To study the applicability and mechanism of goods and service tax.
4. To study the impact of GST on household expenses.

#### **IV. RESEARCH METHODOLOGY**

The research paper is an exploratory research technique and the data collection is done mainly from the secondary data. The required data has been extracted from past literature, research articles, newspapers, published sources like reports, magazines, journals and the authenticated websites.

#### **V. REVIEW OF LITERATURE**

- ❖ **Pallavi Kapila (2018)** the article entitled “GST: Impact on Indian Economy”, In this research paper an attempt has been made to throw light on how GST would help in reducing the existing complexity of taxes in India as it subsumes VAT, Excise Duty, Service tax and Sales tax. The study found that, the implementation of GST had played an important role in the growth of Indian economy. A uniform and rational taxation system in India would lead to lesser disruptions in the market economy and more efficient distribution of resources within the industry in the near future. The study also found that, GST will lead to an increase in GDP and exports of the country, enhancing economic welfare and returns to the factors of production i.e. land, labor and capital.
- ❖ **Dr. N. L. Balasudarsun and Melvin Paul Antony (2018)** the article entitled “Impact of Demonetization and GST in Life Insurance Sector”. This paper deals with impact of Demonetization and GST on life insurance sector. For this purpose 130 was collected from life insurance employees of Cochin region based on random sampling method. Descriptive statistics and ANOVA test were used to analyze the data. The study found that, Demonetization and GST have life insurance sector.
- ❖ **Jadhav Bhika Lala (2017)** the article entitled “Impact of GST on Indian Economy”. In this paper an attempt has been made to throw light on GST, its features and also effect of GST on prices of goods and services. The study found that, the GST system is basically restructured to simplify current critical indirect tax system in India. The study also found that, a well designed GST is an attractive method to get liberate of deformation of the existing process of multiple taxes and reduce the compliance burden.
- ❖ **Prof. Pooja S. Kawle and Prof. Yogesh L. Aher (2017)** the article entitled “GST: An Economic Overview: Challenges and Impact Ahead”. The research intends to focus on understanding the concept of goods and service tax and its impact on Indian economy. The study found that, GST may assure the possibility of overall gain for industry, trade and agriculture. The study also found that, GST will have positive impact on the Indian economy.

#### **VI. GST IMPACT ON THE INDIAN ECONOMY**

After a long wait of about 16 years, Indian government finally passed goods and service tax on 1<sup>st</sup> July, 2017. It's expected to turn India into one common market.

- ❖ Reduces the tax burden on producers, which will stimulate the producers to produce more. The previous tax structure, pumped with myriad tax clauses, prevents manufacturers from producing to their optimum capacity and retard growth. GST will take care of this problem by providing tax credit to the manufacturer.
- ❖ There will be more transparency in the system as consumers will have a complete idea of the amount being charged to them as tax.
- ❖ Increases the tax revenue of the government, which improves the economy of the country.
- ❖ Goods and Service Tax will remove the bundled of indirect tax like VAT, CST, Service tax, CAD, SAD and excise.
- ❖ Less tax compliance and a simplified tax policy as compared to the previous tax structure.
- ❖ Removal of cascading effect of taxes i.e. removes double taxes.
- ❖ Reduction of manufacturing costs due to lower burden of taxes on the manufacturing sector. These results in prices of consumer goods will be likely to come down.
- ❖ Increases the demand and supply of consumer goods.
- ❖ Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check.
- ❖ Different tax barriers like check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to higher needs of buffer stock and warehouse costs. A single taxation system will eliminate this roadblock.
- ❖ GST will provide credit for the taxes paid by producers in the goods or services chain. This is expected to encourage producers to buy raw material from different registered dealers and is hoped to bring in more vendors and suppliers under the purview of taxation.

- ❖ Removes the custom duties applicable on exports. The nation’s competitiveness in foreign markets will increase on account of lower costs of transaction.

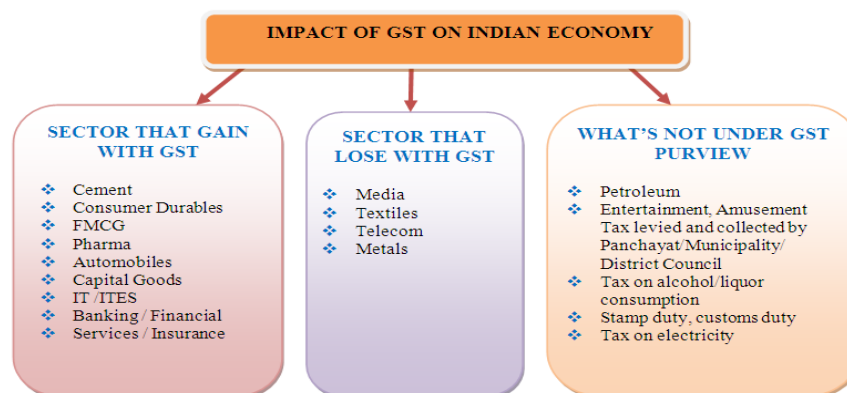
**VII. POSITIVE IMPACT OF GST**

- ✚ The GST will reshape the indirect tax structure by dissolving majority of indirect taxes like excise, sales and services levies prevailing in the country. This will definitely do away with the complex indirect tax structure of the country; hence will improve the ease of doing business in the country.
- ✚ According to the International Monetary Fund (IMF), the adoption of the goods and service tax could help raise India’s medium term gross domestics product (GDP) growth to over 8% and create a single national market for enhancing the efficiency of the movement of goods and services.

**Table 1: IMPACT OF GOODS AND SERVICE TAX**

IMPACT ON	SHORT TERM	MEDIUM TERM
<b>Growth</b>	Could be disruptive, depends on pass-through and effective tax rate	Clearly positive; likely to add 80bp to GDP of which 50bp would come from higher investment
<b>Inflation</b>	Negligible below 18% GST rate; high but one off at 18% + GST rate	Lower inflation over time
<b>Fiscal</b>	Uncertain: Any surprise to be borne by the centre	Revenue enhancing by improving tax buoyancy and tax base
<b>Foreign Inflows</b>	Likely to rise on the back of improved sentiment for reforms	By improving the ease of doing business positive for FDI inflows
<b>Jobs</b>		Job enhancing for manufacturing and services

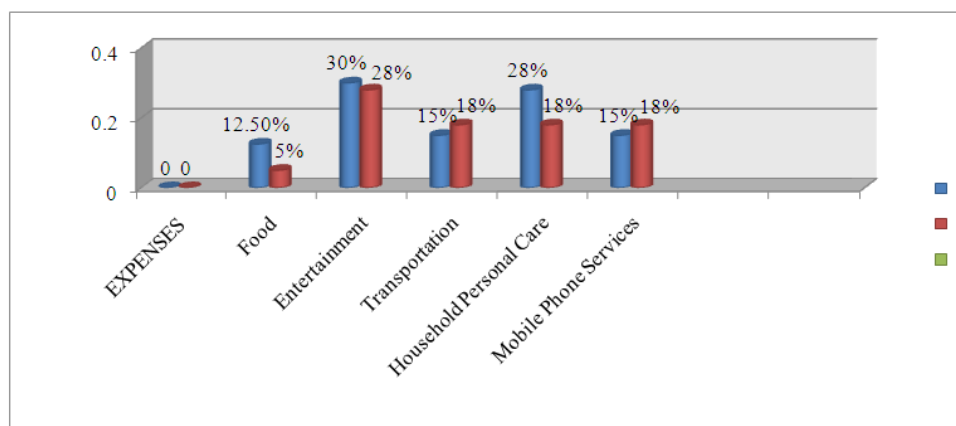
Source: HSBC estimates



**Table 2: IMPACT OF GST ON HOUSEHOLD EXPENSES**

EXPENSES	BEFORE GST	AFTER GST
Food	12.5%	5%
Entertainment	30%	28%
Transportation	15%	18%
Household Personal Care	28%	18%
Mobile Phone Services	15%	18%

Source: <http://www.gstindia.com>



APPLICABILITY AND MECHANISM OF GST

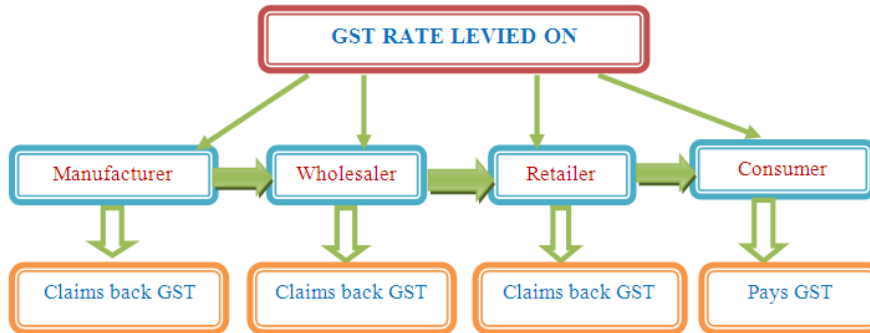
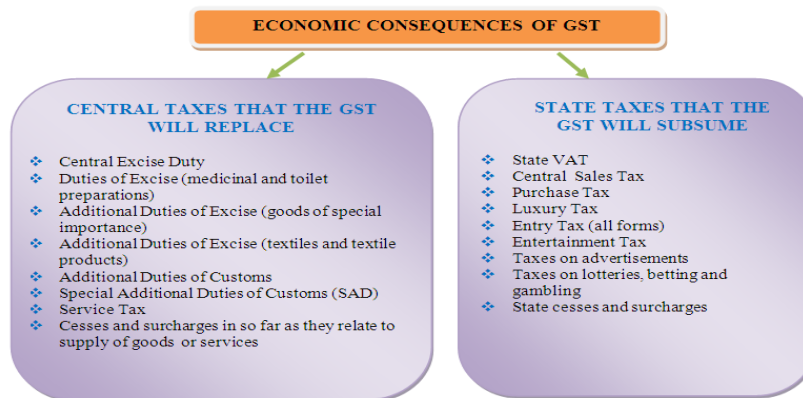


Table 3: CURRENT TAX RATE ON DIFFERENT SECTORS

DIFFERENT SECTORS	CURRENT GST RATE
Cement	27-32%
Consumer Durables	7-30%
FMCG	20-35%
Pharma	6%
Automobiles	30-47%
Capital Goods	24-32%
IT /ITES	14%
Banking / Financial	14%
Services / Insurance	15%
Media	20-21%
Textiles	6-7%
Telecom	14%
Metals	19-20%

Source: <http://www.gstindia.com>



VIII. FINDINGS OF THE STUDY

1. The study reveals that, the entire Indian market will be a unified market which may translate into lower business costs. It can facilitate seamless movement of goods across states and reduce the transaction costs of businesses.
2. There is enormous scope for augmenting revenue. Lower taxes lead to better compliance and higher revenues. Good opportunity to jointly work for better enforcement.
3. The suppliers, manufacturers, wholesalers and retailers are able to recover GST incurred on input costs as tax credits. This reduces the costs of doing business, thus enabling fairer prices for consumers.
4. The study also found that, GST will lead to an increase in GDP and exports of the country, enhancing economic welfare and returns to the factors of production i.e. land, labor and capital.

## **IX. SUGGESTIONS**

The researcher would like to give the following suggestions

1. The government should construct a proper monitoring system to evaluate the impact of implementation of GST.
2. The researcher would like to suggest that, taxpayer education or public awareness campaign need to be provisioned by central government.
3. Public workshops, training and various seminars on GST must be conducted in all states by their respective state governments.
4. Joint operation between consumer association and nongovernmental organization to ensure worldwide pricing monitoring.

## **X. CONCLUSION**

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. All sectors of economy whether the industry, business including government departments and service sector shall have to bear impact of GST. The goods and service is all set to integrate state economies and boost overall growth. This will create a single, unified Indian market to make the economy stronger. GST is not a new tax but replaces all taxes which were levied at all the previous stages in production and sale process with one tax. Now there is one tax with two components - state and central components. GST becomes a reality today. GST is building a new India through one nation, one tax and one market. GST will improve the collection of taxes as well as boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate. India's historic and bold move towards integrated tax structure is viewed by most economists as an answer to regressive indirect tax slab. It is believed that GST would put India's tax structure at par with more then 140 countries and would be productive for all the sectors.

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