

A research paper on goods and service tax (GST) and its impact on Indian economy

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Abstract

The concept of Goods and Service Tax popularly known as GST was introduced on 1st July, 2017. The GST will have a 'dual' structure, which means it will have two components- the Central GST and the State GST. GST is expected to simplify tax administration, ensure 'Ease of Doing Business' and promote 'Make in India.' On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%.

Keywords: goods and service tax; Indian economy; indirect tax

Introduction

The Goods and Services Tax (GST) is one of the biggest economic and taxation reforms undertaken in India. Parliament initiated a seven-hour marathon debate on four supplementary GST Bills. The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. The GST aims to streamline the taxation structure in the country and replace a gamut of indirect taxes with a singular GST to simplify the taxation procedure. GST is one indirect tax for the whole nation, which will make India one unified common market. It would also enhance the position of India in both, domestic as well as international market. The system will phase out all indirect taxes and only GST will be applied as an indirect tax. It will apply on both Goods and Services. Taxes like excise duty, VAT, service tax, luxury tax etc will go with GST's implementation.

GST is essentially a consumption tax and is levied at the final consumption point. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. The principle used in GST taxation is Destination Principle. It is levied on the value addition and provides set offs. As a result, it avoids the cascading effect or tax on tax which increases the tax burden on the end consumer. It is collected on goods and services at each point of sale in the supply line. The GST that a merchant pays to procure goods or services can be set off later against the tax applicable on supply of goods and services. Therefore, manufactures, wholesalers and retail merchants can avail tax credit mechanism under GST regime. They would pay the applicable GST but it can be reclaimed by the tax credit mechanism. It will be charged at the point of sale according to its destination tax/point-of-sale tax nature. A person who supplies goods and services would be liable to charge GST from the consumer.

GST rates in India

SCHEDULE I: LIST OF GOODS AT NIL RATE
SCHEDULE II: LIST OF GOODS AT 0.25% RATE
SCHEDULE III: LIST OF GOODS AT 3% RATE
SCHEDULE IV: LIST OF GOODS AT 5% RATE
SCHEDULE V: LIST OF GOODS AT 12% RATE
SCHEDULE VI: LIST OF GOODS AT 18% RATE
SCHEDULE VII: LIST OF GOODS AT 28% RATE

Complete list of GST rates for all the items:

Impact of GST on Food items

No tax (0 per cent GST)

Unpacked food grains, fresh vegetables and fruits, unbranded Atta, Maida, besan, gur, milk, eggs, curd, lassi, unpacked paneer, unbranded natural honey, salt, fresh meat, fish, chicken, butter milk, cereal grains hulled

5 per cent

Sugar, tea, roasted coffee beans, edible oils, cream, skimmed milk powder, milk food for babies, packed paneer, frozen vegetables, cashew nuts, spices, pizza bread, rusk, sabudana, Raisin, fish fillet, packaged food items

12 percent

Butter, ghee, almonds, fruit juice, packed coconut water, preparations of vegetables, fruits, nuts or other parts of plants including pickle, murabba, chutney, jam, jelly, bhujia, namkeen, fruit juices, frozen meat products, dry fruits in packaged form, animal fat and sausage

18 per cent

Biscuits (all categories), flavoured refined sugar, pastries and cakes, preserved vegetables, soups, ice cream, instant food mixes, pasta, corn flakes, curry paste, mayonnaise and salad dressings, mixed condiments and mixed seasonings

28 per cent

Chewing gum, molasses, chocolate not containing cocoa, waffles and wafers coated with chocolate

Impact of GST on Apparels/Footwear

0 per cent

Handloom

5 per cent

Footwear (upto Rs 500), apparels (upto Rs 1,000)

12 per cent

Apparel above Rs 1000

18 per cent

Footwear costing more than Rs 500, branded garments, headgear and parts thereof

28 per cent

Objective of the Study

1. To understand the GST and its impact on Indian Economy.
2. To know the benefits of Goods and Service Tax to business, consumer and industry.

Methodology

The data used in the research was collected through external resources like websites, Articles on the internet, previous researches to analyze and used analytical study.

Impact of GST on most used services

0 per cent

Education services, health services, hotels and lodges with tariff below Rs 1,000, grandfathering service. Rough precious and semi-precious stones (0.25 per cent)

5 per cent

Transport services (Railways, air transport)

12 per cent

State-run lotteries, non-AC restaurants, business class air ticket, fertilisers, work contracts

18 per cent

AC hotels that serve liquor, telecom services, IT services, financial services, room tariffs between Rs 2,500 and Rs 7,500, restaurants inside five-star hotels, movie tickets below Rs 100

28 per cent

Private-run lotteries authorised by the states, hotels with room tariffs above Rs 7,500, 5-star hotels, race club betting, movie tickets above Rs 100

Impact of GST on household items

0 per cent

Prasad, phool bhari jhadoo

5 per cent

Agarbatti, domestic LPG, bio gas, coir mats, matting and floor covering

12 per cent

Umbrella, sewing machine, spoons, forks, ladles, skimmers, cake servers, fish knives, tongs

28 per cent

Paint, wallpaper, ceramic tiles, water heater, dishwasher, washing machine, vacuum cleaner

Impact of GST on Health/aids

5 per cent

Medicines, stent, insulin, Braille paper, Braille typewriters, Braille watches, hearing aids and other appliances to compensate for a defect or disability

12 per cent

Ayurvedic medicines, all diagnostic kits and reagents, glasses for corrective spectacles and flint buttons

How will GST affect prices of electronic devices

12 per cent

Mobile

18 per cent

Computers, printers, printed circuits, camera, speakers and monitors, Electrical Transformer, CCTV, Optical Fiber

Impact of GST on stationary

0 per cent

Children's drawing and colouring books, printed books, newspapers, stamps, judicial papers

5 per cent

Postage or revenue stamps, stamp-post marks, first-day covers

12 per cent

Exercise books and note books

Others

0 per cent

Jute, bones and horn cores, bone grist, bone meal, hoof meal, horn meal, Human hair

5 per cent

PDS Kerosene, coal, lifeboats, ice and snow, kites

12 per cent

Playing cards, chess board, carom board, ludo and other board games

18 per cent

Bidi Patta, mineral water, tissues, envelopes, steel products, Aluminium foil, weighing Machinery (non-electrical or electronic), bamboo furniture, swimming pools and padding pools

28 per cent

Automobiles, motorcycles, aircraft for personal use, bidis, pan masala, aerated water, weighing machine, ATM, vending machines

Gold and rough diamonds do not fall under the current rate slab and will be taxed at 3% and 0.25% respectively.

Benefits of GST to the Indian Economy

For business and industry

- 1) Easy compliance:** comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.
- 2) Uniformity of tax rates and structures:** GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business
- 3) 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. This would reduce hidden costs of doing business.
- 4) Improved competitiveness:** Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.
- 5) Gain to manufacturers and exporters:** The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) 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 to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

For Central and State Governments

- 1) Simple and easy to administer:** Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.
- 2) Better controls on leakage:** GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.
- 3) Higher revenue efficiency:** GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

For the consumer

- 1) Single and transparent tax proportionate to the value of goods and services:** Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to

the final consumer.

- 2) 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 consumer.
- 3) Removal of manufacturing costs:** Removal of manufacturing costs due to lower burden of taxes on the manufacturing sector. Hence prices of consumer goods will be likely to come down.
- 4) Lower the burden on common men:** Public will have to shed less money to buy the same products that were costly earlier.

How will GST impact the Indian Economy?

- 1) Remove the custom duties:** GST will remove the custom duties applicable on exports. The nation's competitiveness in foreign markets will increase on account of lower costs of transaction.
- 2) Eliminate the different tax barriers:** Different tax barriers, such as 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 warehousing costs. A single taxation system will eliminate this roadblock.
- 3) Reshapes Indirect tax structure:** It will reshape the indirect tax structure by a subsuming majority of indirect taxes like excise, sales and services levies.
- 4) GDP growth:** GST is a key for India's gross domestic product in times of challenging global environment. GST could boost India's GDP growth by 0.9-1.7 percent.
- 5) Foreign Exchange:** The passing of GST will be welcome news for the Indian rupee (INR). GST will lead to higher foreign direct investment inflows and a narrow current account deficit- factors that should help the rupee increase.
- 6) Impact on Make-in-India:** The impending GST promises a progressive tax system which avoids tax cascades and helps establish India as a true common market.
- 7) Clean- up India:** The clean-up of Indian taxation system will reduce the number of excise duty exemptions. According to the estimates, excise tax exemptions result in foregone revenues of Rs.1.8 lakh crore. India loses about 2.7 percent of GDP because of these exemptions.
- 8) Foreign trade:** The impact of this will be on the all multinational companies and facilitates for ease of doing business and adds factor to the globalization and companies.

A Brighter Economy

The introduction of GST will be a very noteworthy step in the field of indirect tax reforms in India. By merging a large number of Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation overall easy for the industries. For the end customer, the most beneficial will be in terms of reduction in the overall tax burden on goods and services. Introduction to GST will also make Indian products competitive in the domestic and international markets. Last but not least, the GST, because of its transparent character, will be easier to administer. Once implemented, the proposed taxation system holds great

promise in terms of sustaining growth for the Indian Economy.

Conclusion

It can be concluded from the above discussion that GST will provide relief to producers and consumers by providing wide and comprehensive coverage of tax credit set-off. More than 150 countries have implemented GST. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States. It can be further concluded that GST have a positive impact on Indian sectors and industry.

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