

IMPACT OF GST ON ECONOMIC DEVELOPMENT IN INDIA

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ABSTRACT

This paper is outlined to access the Impact of GST in India. This is the biggest tax reform that took place in India which was founded on the notion of “one nation, one market, one tax”. The GST scheme is aimed at reforming the indirect tax and as well as dismantling all the inter-state barriers with respect to trade. The study is going to examine how the reform process of the indirect tax started in India which gave birth to the current GST scheme we have today. The Aims and benefits of the Goods and service tax will be stated in the study and a detailed description of how GST works and operate in India will be discussed. GST is known to be a type of Value added Tax which is imposed on various goods and services, with that, several countries impose it on goods and services in various forms, and the taxes charged on the goods and services differ amongst countries, in that case, the study will discuss the main characteristics of GST in India. The study will also examine the advantages and disadvantages of implementing GST and also the impact of GST on the final consumer.

Key Words: GST, FMCG, Agriculture, Automobile, Telecommunication

INTRODUCTION

GST stands for Goods and Services Tax levied by the Government in a move to replace all of the indirect taxes. In India, the idea of GST was contemplated in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003, named Kelkar Committee. The Kelkar Committee was convinced that a dual GST system shall be able to tax almost all the goods and services and the Indian economy shall be able to have wider market of tax base, improve revenue collection through levying and collection of indirect tax and more pragmatic approach of efficient resource allocation. Under the Goods and Service Tax.

Mechanism, every person is be liable to pay tax on output and shall be entitled to enjoy credit on input tax paid and tax shall be only on the amount of value added. The principal aim of GST is to eliminate cascading effect i.e. tax on tax and it will lead to bringing about cost competitiveness of the products and services both at the national and international market. GST System is built on integration of different taxes and is likely to give full credit for input taxes. GST is a comprehensive model of levying and collection of indirect tax in India and it has replaced taxes levied both by the Central and State Governments. GST be levied and collected at each stage of sale or purchase of goods or services based on input tax credit method. Under this system, GST-registered commercial houses shall be entitled to claim credit of the tax they paid on purchase of goods and services as a part of their day to day businesses.

The historic GST or goods and services tax has become a reality. The new tax system was launched at a function in Central Hall of Parliament on 1 stJuly ,2017 (Friday midnight). GST, which embodies the principle of "one nation, one tax, one market" is aimed at unifying the country's \$2 trillion economy and 1.3 billion people into a common market. Under GST, goods and services fall under five tax categories: 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent. For corporate, the elimination of multiple taxes will improve the ease of doing business. And for consumers, the biggest advantage would be in terms of a reduction in the overall tax burden on goods. "Inflation will come down, tax avoidance will be difficult, India's GDP will be benefitted and extra resources will be used for welfare of poor and weaker section," Finance Minister Arun Jaitley said at GST launch event in Parliament. The Lok Sabha has finally Passed the Goods and Services Tax Bill and it is expected to have a significant impact on every industry and every consumer. Apart from filling the loopholes of the current system, it is also aimed at boosting the Indian economy. This will be done by simplifying and unifying the indirect taxes for all states throughout India.

OBJECTIVES OF THE STUDY

- 1.To study the need of Goods and Services Tax (GST).
2. To study the impact of Goods and Services Tax (GST) on Indian economy.

RESEARCH METHODOLOGY

This study is descriptive in nature and it used the exploratory technique. The data for the study were gathered from the secondary sources such as journals, articles published online and offline on various newspapers and websites.

NEED FOR GST IN INDIA

- Present tax system allows is diversity of taxes, the introduction of GST is likely to unique it. Many areas of Services which are untaxed. After the introduction of GST, they will also get covered. 3. GST may help to avoid confusions caused by present complex tax structure and will help in development of a common national market.
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- GST may help to avoid confusions caused by present complex tax structure and will help in development of a common national market.
- Excise, VAT, CST have the cascading effects of taxes. Therefore, there will be end up in paying tax on tax. GST will replace existing all present taxes.
- GST will lead to credit availability on throughway purchases and reduction in obedience requirements.
- Applying of GST will do more than simply redistribute the tax burden from one sector or Group in the economy to another.
- Achieves, uniformity of taxes across the territory, regardless of place of manufacture or distribution.
- Provides greater certainty and transparency of taxes.
- Ensures tax compliance across the country.
- GST will avoid double taxation to some extent.

- The effective implementation of GST makes sure that India provides a tax system that is almost similar to the rest of world where GST implemented.
- GST will also improve the International level cost competition of various native Goods and Services. GST will provide impartial tax structure that is neutral to business processes and geographical locations within India.
- If the GST is implemented in the true spirit, it will have many positives effects for the stakeholders and will lead to a better friendly tax environment.

IMPACT OF GST ON PRICES OF GOODS AND SERVICES

Tax experts claimed that the previous practice of tax on tax – for example, VAT was being charged on not just cost of production but also on the excise duty that was added at the factory gate leading to production cost building up but now all had been gone when GST is rolled out. The prices of consumer durables, electronic products and ready-made garments will be available at low price after rolled out GST. In other aspects, for goods which were taxed at low rate, the impact of GST brings price increment. Services bearing essential ones like ambulance, cultural activities, pilgrimages etc. were exempted from levy are same. India has seen the strongest tax reform that aims to do away with various – tax system on goods and services and bring them under one rate. We can draw the following impact of GST on prices:

The government rolled out the much talked about Goods and Services Tax (GST) on the midnight of June 30. The GST Council has fixed the tax rates, keeping a view on all goods and services; they are classified under tax slabs 0 % (exempted ones), 5%, 12%, 18% & 28%.

TELECOMMUNICATIONS

In the telecom sector, prices are expected to come down after GST. Manufacturers will save on costs through efficient management of inventory and by consolidating their warehouses. Handset manufacturers will find it easier to sell their equipment as GST will negate the need to set up state-specific entities, and transfer stocks. They will also save up on logistics costs.

TEXTILE

The Indian textile industry provides employment to a large number of skilled and unskilled workers in the country. It contributes about 10% of the total annual export, and this value is likely to increase under GST. GST would affect the cotton value chain of the textile industry which is chosen by most small medium enterprises as it currently attracts zero central excise duty (under optional route).

REAL ESTATE

The real estate sector is one of the most pivotal sectors of the Indian economy, playing an important role in employment generation in India. The probable impact of GST on the real estate sector cannot be fully assessed as it largely depends on the tax rates. However, it is a given that the sector will see substantial benefits from GST implementation, as it will bring to the industry much required transparency and accountability.

AGRICULTURE

Agricultural sector is the largest contributing sector the overall Indian GDP. It covers around 16% of Indian GDP. One of the major issues faced by the agricultural sector is transportation of agri products across state lines all over India. It is highly probable that GST will resolve the issue of transportation. GST may provide India with its first National Market

for the agricultural goods. However, there are a lot of clarifications which need to be provided for rates for agricultural products.

FMCG

The FMCG sector could see significant savings in logistics and distribution costs as the GST will eliminate the need for multiple sales depots. The GST rate for this sector is around 17% which is way lesser than the 24-25% tax rate paid currently by FMCG companies. This includes excise duty, VAT and entry tax – all of which will be subsumed by GST. Freelancers Freelancing in India are still a nascent industry and the rules and regulations for this chaotic industry are still up in the air. But with GST, it will become much easier for freelancers to file their taxes as they can easily do it online. They will be taxed as service providers, and the new tax structure will bring about coherence and accountability in this sector.

AUTOMOBILES

The automobile industry in India is a vast business producing a large number of cars annually, fuelled mostly by the huge population of the country. Under the current tax system, there are several taxes applicable on this sector like excise, VAT, sales tax, road tax, motor vehicle tax, registration duty which will be subsumed by GST. Though there is still some ambiguity due to tax rates and incentives/exemptions provided by different states to the manufacturers/dealers for manufacturing car/bus/bike, the future of the industry looks rosy. Start-ups With increased limits for registration, a DIY compliance model, tax credit on purchases, and a free flow of goods and services, the GST regime truly augurs well for the Indian start up scene. Currently, many Indian states have very different VAT laws which can be confusing for companies that have a pan-India presence, specially the e-com sector. All of

this is expected to change under GST with the only sore point being the reduction in the excise limit.

BANKING, FINANCIAL SERVICES AND INSURANCE (BFSI)

Among the services provided by Banks and NBFCs, financial services such as fund based, fee-based and insurance services will see major shifts from the current scenario. Owing to the nature and volume of operations provided by banks and NBFC vis a vis lease transaction, hire purchase, related to actionable claims, fund and non-fund-based services etc., GST compliance will be quite difficult to implement in these sectors.

CONCLUSIONS

Taxation plays a significant role in the development of the economy as it impacts the efficiency and equity. It is expected that a good system should control income distribution and at the same time, it will also endeavor to generate tax revenue which will support government expenditure on public services and development of infrastructure. GST will have a positive impact on the Indian economy. GST has faced lots of controversy and opposition in terms of its implementation. Finally, the GST bill has been passed and is ready to roll out in the market. Time will only decide whether it will have a positive impact or a negative impact. International trade firms and the consumer will have a new system of tax which is a single level and more transparent.

The new system of taxation is considered to be a more improved system over the pre-existing central excise duty at the national level and sales tax system at the state level. The new tax will be a significant breakthrough and a logical step towards comprehensive indirect tax reforms in the country is not only Vat plus service tax but it is a major improvement over the previous VAT system.

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