Goods and Services Tax (GST) in India – An Overview and impact

Songara Manoj
Department of Commerce, Govt. Krishnajirao Pawar PG College, Dewas, INDIA

Abstract
GST also known as the Goods and Services tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. The aim of this research paper is regarding impact of GST and its impact on various sectors. With the introduction of GST, there is chaos and confusion among common man. GST bill will be a form for economic integration of India.

The main trait of the GST is to transform India into a unified market by dismantling the present fiscal barrier among states and can expect improved tax compliance. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied — at the final point of consumption and not at the manufacturing stage.

Keywords: Goods and service tax, Economic growth, Impact.

Introduction

The major source of revenue for any nation is the tax, so for economic development of the nation, it is compulsory to have good taxation system. India started its journey towards tax system in the year 1980. GST would be a major move towards Indian economy as since independence India has faced some of the issues because of complex indirect tax system, this complexity is assumed to be resolved by present GST structure replacing all state and central indirect taxes in to one simple unique tax.[1] GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. One of the biggest taxation reforms in India is the (GST) all set to integrate state economies and boost overall growth.

Currently, companies and businesses pay lot of indirect taxes such as VAT, Service tax, sales tax, entertainment tax, octroi and luxury tax. There would be only one tax, that too at the national level, monitored by the central government.[6,8] Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes.

The concept behind this tax was invented by a French tax official in the 1950s. France is the first country in the world which has implemented GST in 1954. Today, more than 160 nations, including the European union and Asian countries such as Srilanka, Singapore and China practice this form of taxation.[13]

ST in India

GST was introduced as the constitution (one hundred and first amendment) act 2017 following the passage of constitution 122nd amendment Bill. Dr. R. Vasanthagopal studied, "*GST in India: A Big Leap in the Indirect Taxation System"* and concluded that switching to GST from current indirect tax system in India will be a positive step to boost the Indian economy.[10] GST while replacing the VAT (Value Added Tax) solved all the complexities present in the current indirect tax system.[3] This tax structure provided the Indian economy with a strong tax system which was much needed for economic development of the country. Thus, Goods and Services Tax had a positive impact on the Indian economy.

Definition of Goods and Service Tax: New Article 366(12A) of the Indian Constitution defines Goods and Services Tax (GST) as any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption.

Research methodology

The study attempts at descriptive analysis based on the secondary data sourced from journals articles and media reports. Available secondary data was extensively used for the study.

Results and Discussion

Impact of GST on the Indian Economy: GST will impact the overall taxation system of the Indian economy.[11] It will improvise the country's GDP ratio and also will control inflation to a certain extent. However, the reform will mainly be advantageous to the manufacturing industry but will make some things challenging for the service sector industry. There has been a fall in the cost of production in the domestic market after the introduction of GST, which is a positive influence to increase the competitiveness towards the international market. GST is expected to raise the GDP growth from 1% to 2%, but these figures can only be analysed after successful implementation. GST is also different in the way it is levied at the final point of consumption and not at the manufacturing stage.

At present, separate tax rates are applied to goods and services. Some countries have faced a mixed response in growth like New Zealand saw a higher GDP as compared to countries like China, Thailand, Australia and Canada.[12] The GST rate is implemented in various slabs like 5%, 12%, 18% and 28%, which will automatically provide great tax increments to the government and the manufacturing sector will face immense growth with reduction in tax rate. There is definitely something good for everyone.[9] Various unorganized sectors which enjoy the cost advantage equal to tax rate will be brought under GST. This will make various sectors like Hardware, Paint and Electronics etc. under the tax slab.

GST requires everything to be planned meticulously for organized rate of taxation. There are still lots of sectors which are to be discussed under GST and this requires proper planning. For the common man and different companies, the collection of Central and State taxes will be done at point of time when sales originate, both components will be charged on manufacturing costs and price of the product will downgrade and consumption will thereby increase.[5] There will be more transparency in the system as the customers will know exactly how much taxes they are being charged and on what bases.

Impact of GST on various Sectors: Goods and Services Tax will unite the Indian economy into one common market under a single umbrella of taxation rates[7] leading to easiness of starting and doing businesses, leading to increase in savings and cost reduction among various sectors.[4] Some industries will be empowered by GST because of reduction in tax rates while some will lose because of higher rate of GST interests.

(i) Real Estate: The effective GST rate on under-construction real estate projects will be 12 per cent only and not 18 per cent as there will be abatement for land cost according to a report by PTI quoting tax consultant EY.

(ii) Effect on transportation: Under GST, cab and taxi rides are taxed lower, from 6% to 5%. For those who travel by air, GST is favourable as the tax rate is lowered to 5% for the economy class and 12% for business class. Train fare, meanwhile, is mostly unaffected as the change is minimal from 4.5% to 5%. Those who travel by sleeper are not affected by the tax rate change but those who travel first class are charged more.[2]

(iii) Construction Materials: Under revised order from the government, GST on under construction flats and properties will be taxed at 18% which includes 9% SGST plus 9% CGST. The government has also allowed deduction of land value equivalent to one-third of the total amount charged by a developer, thus, making the effective tax rate as 12%. The 12% slab offered for the real estate sector will not affect at the price of the flat but it will be on building materials.

(iv) FMCG GOODS: Fast moving consumer goods sector will benefit from the GST due to the present of big unorganised market. GST rate for products like hair oil, soaps and toothpaste has been lowered by 500-600 bps from the previous rates. Companies such as Colgate-Palmolive, HUL, Britanina, Heritage food etc. will benefit from the move.

(v) Automobile sector: The automobile Industry is coping up with the GST regime as the government is very cautious particularly for this sector. The industry of automobiles is tremendously big which tackles the manufacturing of a very large chunk of cars and bikes every year. Overall it is defined that the GST impact on the automobile industry is less than the previous tax scheme due to the lowered tax scenario. As the automobile industry has already gone through some tough situations like demonetization and after which emissions norms rule hit the grounds of automobiles sector, now the industry will get benefits out of GST with minimum hassle-free procedures and rate fixation across the nation.

(vi) Cement industry: The implementation of GST in the country will somehow create a menace in the cement industry. GST council has decided heavy tax rates over cement industry of 28 percent which seems to overburden the sector with already prevailing tax entities and under developing area in the urbanization. Indian cement industry is aimed to grow at a CAGR of 11.14% in volume terms during FY 2011-FY 2017 and is expected to reach 407 million tons by March 2017.

Prominent cement manufacturers such as Ultratech, JK Cement and Shree Cement are expected to get some setback from this decision over new tax reform in India. The reports suggest that the introduction of 28% Goods and Services Tax on Cement industry will certainly make hard expansion choice in the Indian cement industry and will affect their profitability as well. GST India is likely to have a negative impact on the cement industry and will also take the concrete admixtures manufacturing sector towards downfall.

Conclusion

The implementation of GST would pave way for a simple and understandable tax structure and would also help in avoiding any evasion taking place at any level. Thus, lot being said and done, an appropriate implementation would lead to actually understand whether “GST is a boon or curse. All sectors in India - manufacturing, service, telecom, automobile etc. will bear the impact of GST. While comparing challenges with its advantages, it is clearly visible that its advantages are more compared to challenges; GST will give Indian economy a strong and smart tax system for economic development. But for gaining those benefits, country will need to build strong mechanism.

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(Received 22nd December 2018, accepted 25th January 2019)