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ISSN (Online): 2455-7838

SJIF Impact Factor : 6.093

EPRA International Journal of

Research & Development

(IJRD)

Monthly Peer Reviewed & Indexed
International Online Journal

Volume: 4, Issue:5, May 2019



Published By
EPRA Publishing

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A CONCEPTUAL STUDY OF GST ON INDIAN ECONOMY

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ABSTRACT

A historical movement in India is visualising in the shape of the implementation of Goods and Service Tax (GST). The earlier indirect taxes of the central and state level have replaced by the GST movement. It is a unique and comprehensive tax which intends with the vision of 'One Nation One Tax' for Indian market. This paper is concerned to the concept of GST model as well as enlightens implementation effect of GST in various sectors of Indian Economy.

KEY WORDS: GST, CGST, SGST, IGST, Indian Economy, Economic Reforms etc.

INTRODUCTION

A historical amendment in India's in indirect taxation came into existence in the shape of GST which replaced many indirect taxes. 1st July 2017 will be remember for the GST which mixed all kinds of central and state indirect taxes into single tax which have a great impact on national economy. It would be helpful to short out a lot of problems of earlier indirect tax system and will prove itself uniform and transparent indirect taxes structure. The earlier indirect taxes like the Central taxes i.e. Excise Duty, Basic Custom Duty, Countervailing Duty, Special Additional Duty etc. and State Taxes i.e. VAT, Luxury Tax, Entertainment Tax etc. were replaced by GST. In 1999, the first meeting between the former NDA government Prime Minister Shri Atal Bihari Vajpayee and his economic advisory panel which consist of three former RBI Governors namely IG Patel, Bimal Jalan and C. Rangrajan was held in that time. After this meeting many of discussions were carried by different government for long time with many amendments which finally take the shape of goods and service tax law in India on 1st July 2017, which is a very valuable and multistage

destination based tax that is levied on each value addition. The first terminology used in the explanation of GST is *multistage* which means multiple changes of hands in supply chain from manufacturer to consumer tax will be levied on each of these stages. The second is *value addition* in which GST is levied on every one to the end consumer. The third one is *destination tax* in which GST is levied at point of consumption not of production. It means tax revenue will go in the hands of state govt. where goods are consumed.

The GST came into existence as a game changer for India with a tax system which is more transparent and made on common Indian market which is comprehensive for most goods and services. Its impact is for reaching on most of the aspects of business dealings. It is a great step for one India for all businesses. In future there will be no fake taxes and in long run prices of the goods will be reduced and increase the demand. Presently all the indirect taxes of central as well as state governments taxes constitute 25 to 40 percent of the price for the products with certain exception while the GST implemented these taxes and come down to 18 to 20

percent for most of the products. GST is the booster behind the slogan *“Make in India”* which started and initiatives had been taken three years earlier to make India manufacturing hub. This amendment will not only quench the thirst of Indian manufacturer but reduced the tax and production cost will be lower so that the demand will be increase yet there will be negative impact on service sector as it will increase their tax burden.

REVIEW OF LITERATURE

The study of prior literature is the basic need to synthesize the research findings and to direct the future avenues. The paper has elaborate the studies relating to the subject matter and reviewed here below briefly in the terms of the inference and results-

Ahamad, E. & Poddar, S (2009)¹ in their study, “Goods and Service Tax Reforms and Intergovernmental Consideration in India” and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Vasanthagopal (2011)² in his study, “GST in India: A Big Leap in the Indirect Taxation System” and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Kumar, N. (2014)³ in his study, “Goods and Service Tax- A Way Forward” opined that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Pinki, Supriya, Kamna, & Verma, R. (2014)⁴ studied, “Goods and Service Tax- Panacea For Indirect Tax System in India” and concludes that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Garg (2014)⁵ Studied “Basic Concepts and Features of Good and Service Tax in India”, and revealed that GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

Shearwat, & Dhanda (2015)⁶ in their study “GST in India: A key tax reform” opined that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector.

Shefali (2016)⁷ conducted a to show the impact of GST on Indian Economy and concluded that GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system.

Rathod (2017)⁸ in his paper “An Overview of Goods and Service Tax in India” opines that GST will be a step towards a developed India benefiting too many parties and entire nation.

Das (2017)⁹ in his study “Positive and Negative Impact of GST on Indian Economy” concludes that implementation of GST impacts a nation in both ways. The study revealed that government need to communicate more and more about the system to improve the economy of the country.

SIGNIFICANCE OF STUDY

The present study has its own importance as it will not only provide clear precise and understandable discussion on GST model but also workout to expose the implemented effect of GST on various sectors as well as consolidated overview on India's GDP.

OBJECTIVES OF STUDY

The present study has geared to achieve the following objectives -

- To study the concept of GST Model.
- To study the pro & cons of GST.
- To examine the impact of GST on various economic sector of India.
- To analyse the impact of GST on India's GDP.

RESEARCH METHODOLOGY

The present study is based on latest news and views which dealt secondary data collected from different sources as articles, newspapers, magazines, and websites to study the factors which are enhancing the economic system by the implementation of GST and its effect on different sector of Indian Economy.

LIMITATIONS OF STUDY

- Secondary sources are the key notes of the study.
- There is no collection of quantitative data.
- This article is a general study.

DISCUSSIONS & FINDINGS

• *Concept & Model of GST*

The very first country who adopts GST is France, in the year 1960. GST is metamorphosing of services or goods against the earlier model of taxation on the manufacturing or sale of goods, and service provisions. Unlike the origin based structure that existed earlier, it is destination based. There are three taxes are applicable under GST i.e. CGST, SGST, and IGST.

The term SGST (State Goods and Services Tax) is the tax which charged by respective states of

the nation whereas in CGST (Central Goods and Services Tax) Central government collects the taxes and distributes it among the states with certain provisions. The another term used in GST is IGST which full name is Integrated Goods and Services Tax, IGST is going to be collected by Central government on interstate transactions which Is an additional tax to be levied Under GST all the goods and services bearing certain exemption of taxes will have no difference. Cross utilization of inputs between CGST and SGST is not allowed.

GST Council has declared five tier tax structures: 0%, 5%, 12%, 18% and 28%. Lower rates are kept for essential items and higher ones for luxury goods. For controlling the inflation food items like milk, eggs, curd, unpackaged food grains, salt, fresh, vegetables, bindi, bangles, newspapers, judicial papers and services including education and health will be taxed at zero rates. All the necessity goods like domestic LPG, PDS Kerosene, sugar, tea, coffee, edible oil, spices, fabric, agarbatti medicines will be taxed at 5 percent whereas luxury and consumer durable goods like AC, fridge, washing Machine, small cars (+3 percent cess), high end motorbikes (+15 percent cess), luxury and sin items like BMWs, cigarettes, aerated drinks (+ 15 percent cess), movie tickets costing over Rs. 100 at 28 percent.

Many of goods and services will be taxed at the standard rates of either 12 or 18 percent but the allocation to each tax rate is still uncertain. The items like butter, ghee, processed foods, mobiles, fruit juice, almonds, packed coconut water, umbrellas, food served at non – AC restaurants etc. will be taxed at 12 percent while general hair oil, toothpaste, soap, ice-cream, toiletries, pasta, computers, printers, food served at AC restaurants, film tickets costing less than Rs. 100, taxed at the rate 18 percent. The main purpose of the GST is to eliminate the compounding effect of the current multilayered tax system as well as the cross–state tax heterogeneity by fixing the final tax rate.

It is also apt to note that all indirect taxes have not colligated in GST. Some of indirect taxes like electricity duty, excise duty, stamp duty, petroleum products (crude, natural gas, ETF, patrol and diesel), and VAT on alcoholic beverages are not included in the introduction of GST.

• **Pro and Cons of GST**

There are about 140 nations of the world like Australia, America, China, Canada, France, Germany, Japan, and Pakistan etc. where GST has already implemented. When any kind of reforms introduced in the economy it will certainly poses either positively or negatively aspects. In the present study it is necessary to enlighten the benefits and problems of which has arise with the implementation of GST. These are discussed as below-

Benefits

- Boosting of foreign investment by common national market.

- No precipitation effect of taxation.
- Across the state, there is consistency and uniformity in laws, procedure and rates of taxation.
- Being competitive goods on international level, it enhances the exports.
- Procedure as well as tax regime is very transparent and simple.
- Electronic transparent and accurate input tax credit process is praiseworthy.
- It is transparent system and electronic enhancement which reduced tax evasion.
- There is a common GSTN website which looks after all interaction of the department.

Problems

- GST has not clear picture for both government as well as general public.
- The lack of cooperation between central as well as state government is also responsible for slow implementation of GST and if implemented the levy of tax remain the part of the state.
- Due to levy taxes on the destination principle it is why generally the state government is refusing to accept proposal.
- The revenue natural rate is affecting the implementation of GST because it is not certain that the revenue remains same as that of the current system of GST.
- The application of GST is great loss of revenue to the state as if we buy any product the VAT @ 14.5 percent is included while in GST there will no VAT which is the loss of revenue to the state.
- In another condition if centre govt. is agree to pay the loss of revenue to the state govt. it would impose burden on the general people.
- The training of the staff on the taxation dept. will expand the massive cost.
- The backbone of GST is the various stakeholders so govt. must show keen interest on GST portal to achieve the successful virtual platform.
- There is a great confusion and dilemma whether GST would be applicable for small entrepreneurs and small firms while the public is ready to get a change.

• **Impact of GST on Various Economic Sectors**

Sectorial classification of GST shows both impacts positive as well as negative on each sector while as a whole have a positive impact on Indian economy. They following study reflect some impact of GST in a sectorial way -

- **Technology:** The impact of GST on technology system is indirect taxation on the duty of the manufacturing goods from 14 to 20 percent. As a whole it is negative impact on technology because the prices of the software products will be at high but the

reduction of the tax as well as benefits of other industries can mitigate it at some extent.

- **Telecommunication:** Presently the telecommunication sector is paying tax at 14 percent but with the applicability of the GST system it will reach at 18 percent and is expected be passed over to customers which is the picture of GST adversely effecting this sector.
- **Pharmaceutical:** The scenario of pharmaceutical companies reflects a tax graph from 15-20 percent, the picture is not clear for tax treatment. If it is below 15 percent the impact would be positive and on the other hand when it increases it will cause negative impact on the sector.
- **Automobile:** A drastic and huge change can be visualise in the automobile industry which was giving 30 to 45 percent earlier while the GST reduced it at 18 percent which is profitable for manufacturer, dealers, and finally to customers. it is the great effort of GST which will uplift the living standard and social standard of consumers as well as a huge boom in automobile industry.
- **Financial Services:** Financial sector like banking, stock trading were paying 14.5 percent as VAT while in GST tenure has increased it 18 to 22 percent which will cause services costlier.
- **Textile:** Textile industries were paying 12.5 percent plus surcharges while GST increased it at the rate of 15 percent. It will show a moderate impact on the industry of both natural and slightly negative but they will be benefited through reduction of cost in transportation and saving etc.
- **Media and Entrainment:** In GST regime the cost of DTH and cable television services will be costlier while cinema fares are expected to come down in earlier it was just opposite. The media was paying the tax rate of 22 percent. Therefore it is clear that the impact of GST will be slightly negative on the media and entertainment industry.
- **Consumers Durable:** A very drastic and huge change as well as positive impact is visualising in this sector with the tax rate of 15 to 18 percent while it was between 23 to 25 percent.
- **Cement:** GST proved a logistics tax rate for cement industry companies and industries with the tax rates of 18 to 20 percent while they were paying tax rate 25 percent.
- **Real Estate:** in India's GDP the real estate contributes nearly 7.3 percent and is known as the largest generator of employment next to IT. The single system of taxation under

GST brought a positive impact on this sector by removing the other indirect taxes reduced the prices of property and the cost of construction which is beneficially for GDP of India as well as the gentry.

- **Food Industry:** Food like grains, cereals, meat, fish, poultry, milk and dairy products, fruits, vegetables, candy, confectionary, snacks prepared meals for home consumption, restaurant meals and beverages under GST at a single rate would lead to doubling of tax burden on food if not being exempted due to small business registration.
- **Rail Sector:** Overall if GST include rail sector under its umbrella definitely it will bring significant tax game and will wide tax net which will cause to reduce the GST rate as well as will add benefit of ensuring inter-state transportation of goods which can be tracked through IT network.
- **Small Enterprises:** There are three situation through which can decide the impact of GST on small enterprises. The first is the threshold and composition of turnover that has option to pay tax or opt to join the GST regime. Secondly who are above threshold limit and within framework of GST have desire to certain change in GST pattern such as dealer. In third case are small scale units manufacturing specified goods are allowed exemption of excise up to Rs.1.5 Crore.
- **FDI:** The implementation of GST is positive on FDI which is a great change in economy. With the rollout of GST around 72 percent investments rise across sectors and a significant portion of this is from FDI especially in heavy engineering and automotive sector. The economic survey 2017-18 of India revealed that till September 2017 the inflow from FDI has reached up to 33.75 Arab Dollar. Our country has received maximum contribution 33.17 percent in the shape of FDI inflow from Morssis, 20.03 percent from Singapore and 10.83 percent from Japan in the financial year 2016-17. The launching of GST including Make in India as well as Made in India schemes attract many countries to invest their money and it will certainly raise the inflow of FDI Equity in the different sector of economy during the financial year 2017-18 in finance, banking, insurance, telecommunication, computer software & hardware, defence, aviation, pharmaceutical etc.

Short- term effect: Consumers are of opinion that implementation of GST has brought a mixed impact on different items some have gone cheaper while some costlier and some have neutral impact.

There is compliance with GST that it has different notion for manufacturers and traders and they should registered them self first, then see the details of each and every transaction as well as prices at the portal. These processes is very tuff for small traders who protested earlier and will lose a big share of their market while big industrialist are already in practice so that they preserve their market share and growth and will prosper in future also.

Long-term effect: There is a positive effect on macroeconomic factor by the GST. Stability of tax revenue is an increasing trend while physical deficit is supposed to be under control. Precipitation effect would be eliminated and inflation would be reduced and further export will grow and FDI will increase which is the sign of economic growth.

• **Effect on GDP**

In a study by the National Council of Applied Economic Research recorded the impact on growth because of reduction in direct cost and cost reduction on capital inputs show the growth rates between 2 to 2.5 percent while other examined the Indian economy growth between 1.5 to 2 percent. The GST is widening the coverage tax and tax compliance which may lead to higher revenue and further growth of economy. In concern to GST as per India's Economic Survey 2018 there has been 50 percent increase in the number of tax payers. With the increase in voluntarily registrations distribution of GST base closely link to size of economy have a strong correlation between export performance and living standard of people and change the formal sector greater than currently believe.

According to the Ministry of Finance 1 Crore tax payers have been registered under GST and total revenue collections of GST for the month of Dec. 2017 was Rs. 86703 Crore. The implementation of new tax regime tapering the GST revenues because of this implementation global rating agencies blame that GST negatively impacted the GDP growth. India's GDP growth forecast by 20 bases points to 6.7 percent for Financial Year 2017-18 and 10 bases point to 7.3 percent the economic growth at the second quarter showed sign of recovery at 6.3 percent from a three year low of 5.7 percent in the first quarter of the current fiscal year after implementation of desire tax regime of GST. The latest data shows the total goods and service tax collection is Rs 80808 Crore in November 2017 while the total revenue collection under GST for October 2017 is sum of Rs. 83346 crore. The collection of GST has recorded by exceeding the amount of Rs. 1 Lakh Crore in April 2018, and it is hope to rise further. Now the government is facing challenges to ensure that the overall revenue does not go below the earlier indirect tax collection.

RECOMMENDATION

Since independence of India, GST is very unique tax reform which will affect Indian economy. So it is needed to be handled very carefully and the utmost duty of central and state government to run

some awareness programmes to make out the term and condition of GST. In order to remove the hindrance and fear from the mind of an Indian common man, there are some suggestions have given here below for smooth implementation of GST-

- GST is needed literacy and awareness.
- Tax administration staff should be efficient and effective.
- GSTN portal is needed maintenance and better relationship with stakeholders.
- The role of central government by having a considerable percentage of GST will be helpful for all stakeholders of GST in unnecessary loss of revenue to the state government.
- For the source of tax revenue as well as betterment of GST each and every state should give their consent and suggestion.
- RNR (Revenue Neutral Rate) should be given proper attention and care by state and central government to save the tax revenue.
- It is proper diversification of funds which compensate anyone without burden in the case of the loss of tax revenue
- The successful implementation of GST is only possible through the cooperation of central and state government.

CONCLUSION

The implementation of GST is one of the biggest taxation reforms to create a single whole, unified Indian market to make strong economy, breaking tax barriers between states and integrating India play a dynamic role in the growth and development of our country. GST is basically structured to simplify current indirect tax system in country which will reduce compliance burden as well as distinction between imported and Indian goods. The purpose of GST is to enhance Indian economy in all sectors whether the industry, business including govt. departments, service sector, big, medium and small scale units, importer, exporters, traders, professionals, and consumers are being directly affected by GST.

Above discussion take rest on the GST's metamorphosis, implementation and several reforms in tax area. It is a huge amendment in tax system which changed in Indian Economy and will boost it to a certain zenith in future. Implementation into form of GST brought a great relief to producer as well consumers by giving them broad and comprehensive coverage of input tax credit set-off, service tax set-off and subsuming the several taxes. Implementation is a good effort but it requires concentrated efforts of all stakeholders namely central and state government, trade and industry and should have close eye, necessary step to bring certain amendments which are possible. In long run it will establish India as catalyst for growth of manufacturing Industry. There is a huge protest by small trader and have to bring growth in IT

infrastructure to touch the zenith of reality of GST. So it is necessary to make IT base efficient lower compliance which could support small manufacturers and traders. Obviously GST is a mile stone to the growth of Indian economy but it needs unity and uniformity with the government.

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