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IMPACT OF GST ON INDIAN ECONOMY

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ABSTRACT

There are various types of taxes prevailing in the country such as income tax, capital gain tax, security transaction tax, perquisites tax, corporate taxes, sales tax, service taxes, value added taxes, custom duty and octroi, excise duty, professional tax, municipal taxes, wealth taxes, entertainment taxes. The new system of taxation system in india GST has replaced all the indirect taxes such as service tax, excise duty except custom duty." The present research paper is an attempt to study concept of goods and service tax and its impact on Indian economy.

KEYWORDS

GST, VAT, impact of GST, GST rates.

INTRODUCTION

Vat was introduced into the Indian taxation system from 1 April 2005. Vat is a significant improvement over the local sales tax system. At the state level the advantage of vat is that it is a multi-point tax with set-off for tax paid on purchases and it prevents repeated taxation of the same product. Despite the success of vat there are still certain limitations in the structure of vat both at the central and at the state level. To solve the issues untouched by vat the then Finance minister Pranab Mukherjee while presenting the budget on July 6, 2009, said that GST would come into effect from April 2010, but now it is the era of GST which is coming into existence from April 2017. The goods and services Tax (GST) will indeed be a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. It will lead to the abolition of taxes such as octroi, central sales tax, state level sales tax, entry tax, stamp duty, telecom license fees, turnover tax, tax on consumption or sale of electricity, etc. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult.

MEANING OF GST

The goods and services tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The tax is levied to provide revenue for the federal government. The GST is paid by consumers, but it is levied and remitted to the government by businesses selling the goods and services.

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. 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.

ADVANTAGES OF GST

1. GST is a transparent Tax and also reduce numbers of indirect taxes. With GST implemented a business premises can show the tax applied in the sales invoice. Customer will know exactly how much tax they are paying on the product they bought or services they consumed.
2. GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing business will be lower. This in turn will help Export being more competitive.
3. GST can also help to diversification of income sources for Government other than income tax and petroleum tax.
4. Under Goods and Services Tax, the tax burden will be divided equally between Manufacturing and services. This can be done through lower tax rate by increase Tax base and reducing exemptions.
5. In GST System both Central GST and State GST will be charged on manufacturing cost and will be collected on point of sale. This will benefit people as prices will come down which in turn will help companies as consumption will increase.
6. Biggest benefit will be that multiple taxes like octroi, central sales tax, state sales tax, entry tax, license fees, turnover tax etc. will no longer be present and all that will be brought under the GST. Doing Business now will be easier and more comfortable as various hidden taxation will not be present.

DISADVANTAGES OF GST

1. Critics say that GST would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
2. Some Economist says that CGST, SGST and IGST are nothing but new names for Central Excise/Service Tax, VAT and CST and hence GST brings nothing new in this.

GST SLAB RATES

- 0%- Food Grains
- 5%- Spices and Mustard oil
- 12%- Processed Food
- 18%-Soaps, oil, toothpaste, refrigerator
- 28%-White Goods, Cars
- 28%+cess- Luxury cars, pan masala, tobacco, aeriated drinks

Further, GST will be implemented from 1st April 2017 with this above percentage of tax.

There are both positive and negative impacts of the tax, but the net result for India's infrastructure sector is advantageous.

Electricity: GST is said to have negative impact on electricity, GST is expected to inflate electricity costs by up to eight per cent as the government has decided to keep electricity out of the ambit of this new tax dispensation.

Power producing companies - both renewable and conventional - would have to pay GST for their inputs such as fuel and machinery but will not be able to get these taxes refunded, given that their output - electricity - is exempt.

This higher cost of producing electricity will then be passed on to consumers under the “change of law” clause in power purchase agreements (PPA). Developers selling electricity in the spot market or on a non-PPA basis would have to factor in the higher cost.

Works contracts and EPC: GST has Positive impact GST seeks to provide much-needed clarity on works contracts, and therefore, on the engineering, procurement and construction (EPC) business line. Works contracts are proposed to be taxed as "services".

This means the GST rate and provisions, like place of supply rules, as applicable on services will apply to works contracts.

The major gain from this treatment is that the tax would be now charged on the actual contractual base. Also, local versus inter-state works contracts, that at present leads to innumerable disputes, should get eliminated.

Hence, EPC contract prices should come down somewhat on account of this new tax-efficient structure, which in turn should benefit project owners.

Cement industry: GST has positive impact on cement industry, Cement is a crucial input to the infra sector, and GST is expected to impact it positively. The overall indirect tax incidence is currently estimated to be around 25 per cent. The cement industry is also expected to benefit from lower costs of logistics. Overall, a decrease in cement prices is expected.

Logistics: GST has positive impact on logistics industry The GST is expected to enable a reduction in logistics cost by as much as 20 per cent to 30 per cent, as firms reconfigure their supply chains on four counts. First, as India becomes one big market, there will be larger but fewer warehouses. Secondly, it will lead to a larger number of bigger trucks on roads as there is greater adoption of the hub-and-spoke model. Third, these changes will lead to greater economies of scale for transport operators and lead to more companies outsourcing their logistics operations. Four, reduction in waiting and idling time at inter-state barriers and check-points is expected to provide a huge relief.

Advisory, consulting, engineering and project management services*:* GST is said to have negative impact on consulting and project management services, As with all other services, firms providing these services to the infrastructure sector will have a negative impact due to the higher incidence of GST at 17 to 18 per cent vis-à-vis the current 15 per cent.

Abolition of tax holidays and exemptions: GST has negative impact There are different tax holidays and exemptions for infrastructure development and operations at both the central and state levels. Whilst there is the hope that in the final analysis, these tax holidays and exemptions will be allowed to run their course, the lurking fear is that they will be removed.

Civil aviation: GST has negative impact Five petroleum products - crude, natural gas, aviation turbine fuel (ATF), diesel and petrol - are excluded from the coverage of GST for the initial years while the remaining petroleum products - kerosene, naptha and liquefied petroleum gas (LPG) - are covered.

Flight tickets are likely to get costlier as airlines will not be able to claim credit on tax paid on jet fuel. The current service tax ranges from 5.6 per cent to nine per cent of the base fare, which is considerably less than the GST rate that is being spoken about, of 15 to 18 per cent.

Currently, airlines can claim what is called a cenvat credit on the central excise duty for fuel. They stand to lose this in the GST regime as ATF is outside the purview of GST.

While there is this bundle of negatives and positives, this columnist is of the opinion that on the whole, GST has a positive impact on the sector.

Increase in prices of airline tickets and electricity are soon absorbed and forgotten. But the positives that emanate from rationalisation of taxes on works contracts, reduction in cement prices, the huge benefit to logistics and the elimination of a raft of complex exemptions and tax holidays has clear long-term advantages.

ADVANTAGES TO BUSINESS AND INDUSTRY

- **Easy compliance:** A robust and 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.
- **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.
- **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.
- **Improved competitiveness:** Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.
- **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

- **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.
- **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.
- **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

- **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.
- **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 consumers.

At the **Central** level, the following taxes are being subsumed:

a. Central Excise Duty,
b. Additional Excise Duty,
c. Service Tax,
d. Additional Customs Duty commonly known as Countervailing Duty, and
e. Special Additional Duty of Customs.

At the **State** level, the following taxes are being subsumed:

a. Subsuming of State Value Added Tax/Sales Tax,
b. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
c. Octroi and Entry tax,
d. Purchase Tax,
e. Luxury tax, and
f. Taxes on lottery, betting and gambling.

In case of inter-State transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supplies of goods and services under Article 269A (1) of the Constitution. The IGST would roughly be equal to CGST plus SGST. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of

IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. Since GST is a destination-based tax, all SGST on the final product will ordinarily accrue to the consuming State. For the implementation of GST in the country, the Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders. The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments. GST is working on developing a state-of-the-art comprehensive IT infrastructure including the common GST portal providing frontend services of registration, returns and payments to all taxpayers, as well as the backend IT modules for certain States that include processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are also preparing their IT infrastructure for the administration of GST.

There would be no manual filing of returns. All taxes can also be paid online. All mis-matched returns would be auto-generated, and there would be no need for manual interventions. Most returns would be self-assessed.

CONCLUSION

GST has created a new scenario in the Indian economy, which reduces double taxation on the goods, consumers will have greater advantage as the tax rate is 0% on food gains, the country will have uniform tax rates there will no double taxation on goods. It is consumption based tax, all the luxury goods become costlier, whereas basic needs becomes cheaper, and eliminates the effect of inflation on consumer goods.

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With sincere regards

Thanking you profoundly

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Sd/-
Co-ordinator

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