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

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Abstract: *The massive indirect tax regime aimed at supporting and increasing the growth of a country shall be considered as Goods and Services Tax, which means that it imposes taxes on goods and services. The impact of the GSP and its implications for various sectors are the focus of this research paper. The most anticipated indirect tax change GST (Goods and Services Tax) was implemented in India as the 122nd amendment to the constitution on July 1, 2017, transforming India into a unified market of 1.4 billion people. GST was based on the concept of "One Nation, One Market, One Tax." It is a comprehensive, multistage, destination-based tax: comprehensive because, with the exception of a few state taxes, it has absorbed almost all indirect taxes. The GST, being multi-staged, is applied at each stage of the production process but is intended to be refunded to all parties in the various stages of production other than the final consumer, and as a destination-based tax, it is collected from the point of consumption rather than the point of origin. It was anticipated that the implementation of this tax would be one of the most significant game changers, assisting business owners and manufacturers by eliminating multiple taxes, reducing tax evasion and corruption, and increasing government revenue by broadening the tax base and GDP of the country. Goods and services are taxed at five different rates under GST: 0%, 5%, 12%, 18%, and 28%. Certain items, such as petroleum products, alcoholic beverages, and electricity, are not taxed under GST and are instead taxed separately by specific state governments, as was the case under the previous tax scheme. "Inflation will come down, tax avoidance will be difficult, India's GDP will be benefitted, and extra resources will be used for the welfare of poor and weaker section," Finance Minister Arun Jaitley said at the GST launch event in Parliament. This paper throws an insight into the Goods and Service Tax concept, its objectives, challenges, and impact on the Indian economy.*

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

I. INTRODUCTION

GST is born by the consumer pays the final tax and an efficient input tax credit system ensures that there is no cascading of taxes under this scheme. In 1950, the concept of this tax was invented in France by an official from that country. In 1954, France became the 1st country in the world to introduce General Sales Tax. More than 160 countries today, including the European Union The taxes are the main source of revenue for any state, and it is essential that a good taxation system be put in place to develop its economy. By 1980, India began the process of introducing a tax system. India's economy would be a major beneficiary of this move as the present GST structure replacing all states and central government is expected to resolve these complexity problems which have arisen due to complex indirect taxation system since independence. 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 there are a number of indirect taxes, e.g. VAT, Service Tax, Sales Tax, Entertainment Tax, OCTR and luxury tax, being levied on companies and businesses. There would be only one tax, that too at the national level, monitored union and Asian countries such as Shrilanka, Singapore and China practice this form of taxation. GST was introduced as the constitution (one hundred and first amendment) act 2017 following the passage of constitution 122nd amendment Bill. Dr. R. Vasantha gopal 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

The Goods and Services Tax GST is defined in Article 36612 of the Indian Constitution as any tax on the supply of goods or services or both, with the exception of taxes on the supply of alcoholic beverages for human consumption.

II. 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.

III. 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 analyzed 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's certainly something good for everyone out there. 9 The Goods and Services Tax will apply to the various unorganized sectors, which benefit from cost advantages equal to tax rates. This will result in different sectors, such as Hardware, Paints and electronics being subject to the taxes lab.

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 Sector

In order to make it easier for businesses to start up and operate, the introduction of Goods and Services Tax is going to create a single market in India with one unified taxation rate7 leading to increased savings and reduced costs across different 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

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.

Effect on transportation: The tax rates for cab and taxi transport are reduced by 6 % to 5 % as part of the Goods and Services Tax. For those who travel by air, GST is favorable as the tax rate is lowered to 5% for the economy class and 12% for business class. Meanwhile, train fares are largely unchanged from 4.5% to 5% due to the fact that this is a minimal change. The change in the tax rate does not affect those who travel by sleeper, but passengers travelling First Class are also subject to higher fees

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.

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FMCG GOODS : As the market is very large and fragmented, fast moving consumer goods sector will take advantage of Goods and Services Tax. The general excise duty has been lowered by 500 to 600 basis points from earlier levels on products such as hair oil, soap and toothpaste. This move will be beneficial to companies such as Colgate Palmolive, HUUL, Britanina Heritage and other products.

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.

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.

This decision to reform taxes in India is expected to be a major setback for prominent cement producers such as Ultratech, JKCement and Shree Cement. The reports indicate that the Indian construction industry will have to make a hard expansion choice if it is going to be taxed by 28% goods and services tax, which would also affect its profitability. The impact of GST India on the downfall is expected to be Unfavourable.

IV. CONCLUSION

The introduction of the Goods and Services Tax will make it possible to put in place a straightforward and clear tax structure, which would also help prevent evasion at all levels. Thus, lot being said and done, an appropriate implementation would lead to actually understand whether "GST is a boon or curse. The effect of the Goods and Services Tax will be felt by all sectors in India for manufacturing, service, telecommunications, automobiles etc.. But for gaining those benefits, country will need to build strong mechanism.

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