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GST: Impact on Different Sector of Indian Economy

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Abstract

The Goods and Services Tax is the biggest tax reform since independence, according to NITI aayog CEO Amitabh Kant GST will help India achieve 9 per cent growth rate. Several experts have also said that GST is estimated to boost GDP by 1-2 per cent and bring down inflation by 2 per cent over the long term. The Good and services tax (GST) is the biggest and substantial indirect tax reform since 1947. The main idea of GST is to replace existing taxes like value added tax, excise duty, service tax and sales tax. It levied on manufacture, sale and consumption of goods and services. More than 150 countries have implemented GST so far. However, the idea of GST in India was first mooted by kelkar committee in 2004.later on number of steps were initiated towards introduction of GST in india. Hence GST constitutional amendment for the same was passed by the Lok sabha on 7th May 2015. The bill seeks to amend the constitution to introduce GST vide proposed new article 246A.It received assent of the president On 8th august 2016.CGST,IGST and UTGST bills have been passed by Lok sabha on 29th march 2017 and by Rajya sabha on 5th april 2017.All these bills have been received assent of the president on 12th april 2017.This article gives power to parliament and legislature of each state to make laws with respect to goods and services tax imposed by the union or by such state where the supplies of goods or services take place. Till now various amendments have been made with the passage of time to implement GST effectively. 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. Here an attempt has been made to know the impact of GST on Indian economy.

Introduction

The word, tax, is derived from Latin word “taxare” which means to estimate. A tax is an enforced contribution, exacted pursuant to legislative authority. Indian Taxation System comprise of Direct and Indirect Tax. Goods and Services Tax (GST) is one of the most discussed Indirect Taxation reforms. It is comprehensive tax regime levied on supply of goods and services both which include manufacture, sales and consumption of both goods and services throughout India. It is expected to bring about 2% incremental GDP growth of the country. So, GST is the need of the hour. Section 1 of the article introduces the GST, its objectives and Present Indirect Tax structure . Section 2 of the article examines the impact of GST on the different sector of economy. Section 3 of the article related with conclusion of the article.

Concept of Goods and Service Tax

GST is nothing but a well designed value added tax that covers both goods and services. It is an indirect tax which was introduced in India on 1st July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state government.It is Dual in nature.It consists of two components, one levied by Centre (CGST) and another levied by States and Union Territories (SGST). However, base of tax levy would be identical.

Need of Goods and Service Tax

Indian economy is getting more and more globalised. In recent times, a number of Free Trade Agreements (FTAs) have been signed, which will allow imports into India duty free or at very low duties. India's economic growth the recent year has fallen sharply and there is stagnation in Indian exports. One of the main reasons for this situation is the inefficient domestic indirect tax structure.

Hence, there is need to have a nation-wide simple and transparent system of taxation to enable the Indian industry to compete not only internationally, but also in the domestic market. The complex tax structure discourages economy of scale and efficiency in the supply chain which has adverse impact on economic growth. In the present global economic scenario, there is an urgent need to replace the existing tax structure by rational Goods and Service Tax covering all tradable goods and services. By the integration of goods and services taxation India will get a world class tax system and tax collections will also improve. It would end the long standing issue of differential treatment of manufacturing and servicesector. GST will make Indian economy competitive and accelerate its growth. It will eliminate the cascading effect of taxes from cost of products. It is expected that a rational GST structure will reduce overall cost of indigenous products and services by about 10 per cent resulting in higher exports and reduced inflationary impact. A simplified GST structure will reduce litigation and compliance cost. Any losses on account of abolition of multiple taxes are likely to be balanced by the additional GST revenues that will obtain from taxation of services and from access to GST on imports. Implementation of GST is expected to boost GDP growth by at least 1-2 percent apart from attracting higher investment for future growth of the economy.

Review of Literature

Girish Garg, (2014) –

“Basic Concepts and Features of Good and Service Tax in India”, it is found that GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST will create a single, integrated Indian market to make the economy stronger. 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. Through this it 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.

Pinki, Supriya Kamna & RichaVerma (2014)

Goods and Service Tax -Panacea for Indirect Tax System in India” it is found that the GST is India's most ambitious indirect tax reform plan, which aims at removing the cascading effect of tax. The movement of GST was declared in 2008 and supposed to be in force by 2010. Due to various reasons it could not be in force. GST has been implemented in more than 150 countries which will leads to economic growth of the country.

Syed Mohd Ali Taqvi (2013)

“Challenges and Opportunities of Goods and Service Tax in India” the researcher explains the GST is only indirect tax that directly affect all sectors and sections of our country. It is aiming at creating a single, unified market that will benefit both corporates and economy. He also explain the proposed GST model will be implemented parallel by the central and state governments as Central GST and State GST respectively.

Indirect Taxes subsume under GST

GST subsumed various central and state taxes

Central Indirect Taxes

- Central Excise duty (CENVAT)
- Additional excise duties
- Excise duty levied under Medicinal and toilet Preparations(Excise duty Act1955)
- Additional duties of customs (CVD & SAD)
- Central Surcharges & Cesses
- Central sales tax

State Indirect Taxes

- State VAT / Sales Tax
- Purchase Tax
- Entertainment Tax (other than tax levied by local bodies)
- Luxury Tax
- Entry Tax
- Taxes on lottery, betting & gambling
- State Surcharges & Cesses

Objective of the Study

Main objectives of study are spelt out as under

- To study the current indirect tax system
- To study the concept of Goods and Services tax and its need
- To find out the impact of GST on Indian economy.

Research Methodology

The paper uses an exploratory research technique based on past literature from respective journals, reports, newspapers and magazines covering wide collection of academic literature on Goods and Service Tax. According to the objectives of the study, the research design is of descriptive in nature. Available secondary data was extensively used for the study.

Impact of GST on main sector of economy

In our country majority of population is depend upon agriculture and service sector for their livelihood. In present scenario the most important question is what will be the impact of GST on common man. Common man will be benefited from any reform if after reforms prices of day to day goods have reduced .So here an attempt has been made to know the slight impact of GST on major sector viz.agriculture, manufacturing and service sector.

Impact on Agriculture

In the agriculture sector we shall look at how GST will impact cost of agriculture inputs, Supply chain of agriculture products and unification of agriculture in one national market.

a) Agricultural Inputs

Any input taxes placed on inputs used in the farm sector such as seeds, fertilisers, pesticides, tractors etc, contribute to increase in cost of farm output. On the other hand, farm output prices are controlled by market forces on which farmer has little control. As the input price rises and output price remains stagnant, the farmer will have no option but to absorb the cost, thus increasing his burden. Indian

farmer is already reeling under tremendous pressure from many ends and the increased burden of taxes will create a crater in his income. In this context let's look at tax incidence on some major inputs

Seeds - Seeds were exempted both under earlier tax structure and under new GST regime.

Tractors - The tax incidence on Tractor's inputs combined with VAT on final product takes the total tax incidence for the industry to levels of 12-13%. The fixation of a GST rate of 12% on tractors and on tractor inputs@18% would allow the manufacturers to take credit of the cumulative input duties and taxes. Thus, the total tax incidence on tractors would remain at broadly similar levels and its implementation is neutral for the tractor industry.

Fertilizers - Fertilisers an important element of agriculture was previously taxed at 6% (1% Excise + 5% VAT). In the GST regime, the tax on fertilisers has been reduced to 5%. Thereby reducing cost for farmers

Pesticides - Pesticides currently attract an excise duty of 12.5 per cent. But under GST regime, crop protection products like pesticides are taxable at 18%. So, this might increase tax burden on farmer.

So, by and large either tax incidence under GST regime is similar to incidence under earlier tax structure. It is shown in Table-1

Table-1
Rate of tax on agriculture inputs under previous tax regime and present GST

Agriculture Input	Tax burden under previous Tax Regime	Tax burden under GST Tax Regime
Seeds	Nil	Nil
Tractors	12-13%	12%
Fertilizers	6%	5%
Pesticides	12.5%	12%

b) Supply chain

One of the major issues faced by the agricultural sector is the transportation of agriculture products across state lines all over India. Agricultural commodities are perishable in nature in varying degrees therefore trade is influenced by the time required for transportation. The Economist reports that long distance trucks in India are parked for 60 per cent of the time during transportation. Currently, trucks wait outside for hours to pay taxes on borders of states and cities. These taxes are State entry tax and Octroi. However, GST will subsume State entry tax and Octroi this means seamless movement of trucks. Thus, simple uniform tax regime is expected to improve the transportation time, and curtail wastage of precious food as well as it would ease interstate movement of agricultural commodities which would improve marketing efficiency, facilitate development of virtual markets through warehouses and reduce overhead marketing cost.

c) Agriculture Trade

The taxes applicable on agricultural trade vary from state to state. The degree of market distortions on account of variation in the levy of market taxes/cess applicable on different commodities in different states are presented in Table-2

Table-2
State-wise rate of indirect taxes on trade of agriculture goods

Sr. No.	Name of the State	Sales Tax
1	Andhra Pradesh	All Commodities (except Maize, Jowar, Ragi, Bajra, Coarse grains) 4 %
2	Assam	All commodities (except rice, wheat, pulm, f&v, fish, gur, atta, maida etc.)-4-8 %
3	Delhi	F & V- nil Oilseeds-3 % Methi-7 %
4	Gujarat	1.Spices --3%, 2.Aniseed-- 2%, 3.Cotton --4%, 4. Isabgol—2 %, 5. Cummin-2%, 6. Ajwain—2 %
5	Goa	1.Betelnut –2% 2.Cashewnut – 2% Coconut, F&V, Cattle & Milk exempted from Sales Tax
6	Haryana	F&V – nil, Food grains—4 % Pulses—4 %, Oilseeds—4 %
7	Karnataka	1.Foodgrains-nil 2.Pulses -2% 3.Oilseeds-4%
8	Rajasthan	F & V—nil, Foodgrains—4 % Pulses & Oilseeds—2% Coarse grains--nil
9	Uttar Pradesh	Foodgrains-4 % Pulses-2 % Oilseeds & Others- 4 %

The implementation of GST is a move towards making One National Agricultural Market on account of subsuming all kinds of taxes/cess on marketing of agricultural produce.

Impact on Industries

Industrial sector mainly consist of Manufacturing, Construction, Mining and Utilities (electricity, gas water etc.). Manufacturing is the main sub-sector among these and we shall analyze the impact of GST on Manufacturing.

The share of Manufacturing in GDP is stagnant at 16%, however the share is 42% in China. Some of the reasons for such a low share are multiple indirect tax legislations which have led to significant compliance and administrative costs, classification and valuation disputes. So, tax reforms are critical and necessary to give a boost to an already flagging sector.

There will be reduction in tax burden on majority of manufactured goods post GST implementation. A look at important components of manufacturing like automobiles sector reveal that effective tax rate would reduce in Automobile sector the biggest benefit would go to SUV segment. Under FMCG, by and large tax burden would reduce. The biggest relief would be in Soap and Hair oil segment.

Table no 3 presented rate of previous taxes and GST in Automobile and FMCG sector

Table-3
Vehicle segment-wise rate of previous taxes and under GST

Segment	Total pre GST rate	GST	Cess	Effective GST	Change
Two/ three wheelers	30.2%	28.0%	0.0%	28.0%	2.2%
Mid Segment Cars	47.3%	28.0%	15.0%	43.0%	4.3%
Sports Utility Vehicles	55.3%	28.0%	15.0%	43.0%	12.3%
Commercial vehicles	30.2%	28.0%	0.0%	28.0%	2.2%
FMCG					
Segment	Excise	VAT	Total pre GST rate	GST	Change
Soap	12.5%	13.5%	27.7%	18.0%	9.7%
Shampoos	12.5%	13.5%	27.7%	28.0%	-0.3%
Pastries and cakes^	6.0%	6.0%	12.4%	18.0%	-5.6%
Waffles and wafers coated with chocolate^	12.5%	6.0%	19.3%	28.0%	-8.7%
Milk	0.0%	0.0%	0.0%	0.0%	0.0%
Ghee	0.0%	13.5%	13.5%	12.0%	1.5%
Butter	12.5%	13.5%	27.7%	18.0%	9.7%
Hair Oil					

There are few other aspects of GST which will add to competitiveness and ease of doing business of manufacturing sector are as follow:

a) Correct Valuation of goods - Currently, various pre-packaged products for retail consumption are subject to excise duty not on the ex-factory transaction value but on a specified percentage of the maximum retail price (MRP) printed on the package. The MRP based value (which is usually between 30%-35% of the MRP) is in most cases, much higher than the ex-factory transaction value leading to a higher excise duty liability than would otherwise be the case. This increased excise duty itself, results in a higher MRP, ultimately leading to a higher cost burden for the consumers. Under the GST regime, GST is payable by the manufacturer at the transaction value, and is creditable for all subsequent resellers up to the final consumer. Accordingly, the unnecessary tax burden of the MRP regime will no longer be relevant.

b) Reduction of cascading taxes - Under the present indirect tax regime, Central taxes cannot be set-off against State taxes and vice versa. This often leads to a situation where manufacturers are unable to set off excess credit of central or state levies. Further, central sales tax paid on inter-state procurements is also not creditable and are costs for the company. Another issue is the cascading of taxes at the post manufacturing stage. Dealers, retailers etc. are subject to taxes on their input side which are not creditable (service tax on input services, excise duty on capital goods). This leads to an increase in the cost of goods, ultimately affecting the competitiveness of Indian manufactured goods vis-à-vis imports. All of the above issues are addressed under GST, which permits tax set offs across the production value-chain, both for goods and services. This will result in a reduction of the cascading effect of taxes and bring down the overall cost of production of goods.

c) **Formalization of Manufacturing** - Input credit is proposed to be allowed only if the details declared by a taxpayer matches with the details declared by vendors in their returns. This will incentivize vendors supplying to manufacturing firms to move from informal to formal sector, because if they are in informal sector and do not furnish bill to their customers i.e. manufacturing units then these units will route supplies from those vendors which provide bills.

d) **Reduction of classification disputes** - Currently, due to varying rates of excise duty and VAT on different products, as well as several exemptions provided under excise and VAT legislations, classification disputes are a regular cause for litigation under both central excise and VAT, especially for the manufacturing sector. It is expected that the inception of GST which is based on the principles of a simplified rate structure and minimization of exemptions will significantly reduce disputes regarding classification of products.

e) **Supply chain restructuring based on economic factors** - Current supply and distribution models are structured to optimize indirect tax impact arising at various levels of value addition. Transition to GST should hopefully result in such decisions being taken to optimize business efficiency (as opposed to indirect tax efficiency). For Example- currently warehousing choices are often based on arbitrage between VAT rates in different States/ between applicable VAT and CST rates. With the advent of GST, it is hoped that such warehousing and logistics decision would be based on economic efficiency such as costs and location advantages vis-a-vis key customers.

Impact on services

Services sector accounts for 60% of GDP (2013-14) and contribute to 70% of overall yearly GDP growth since 2011-12. A adverse impact of new tax regime may sub-due overall growth of Indian economy on the other hand gains from new tax regime shall boost overall growth. The assessment of Risks, Opportunities and challenges are as follow:

- a) **Risks** - The government has unveiled a four-tier GST rate structure for the sector - 5 percent, 12 percent, 18 per cent and 28 per cent. The bulk of the services will, however, be taxed at 18 per cent. The sector is currently taxed at 15 per cent, so the GST regime will likely increase tax incidence for this sector. Economic principles tell us final output sold might show slow growth due to increased prices. This may be a bad news given that services sector is not doing well because exported oriented part of services like business process and IT industries are showing decelerated growth due to protectionist stance in Advance economies including USA. But, services sector also include Public administration and defence which might see tremendous growth on account of increase in tax revenue, enhancement of tax base and ease in tax compliance.
- b) **Opportunity** - Under GST input credit would be available for goods purchases as well as services which enter the production as services like transportation services. This treatment of service inputs shall have atleast two distinct effects. First, as producers could get tax credit for service input it will automatically reduce prices of goods. Secondly, outsourcing of services will increase, as input tax credit will be available for services many services in the production process which are produced by producer themselves will now be outsourced to third party. These third parties will provide services at a cheaper cost as compared to in-house production by producer due to economies of scale and division of labour. Thus, price of final products shall reduce because of cheap service inputs.
- c) **Challenges** - A four-tier tax slab and differential rate between the goods and services sectors may distort/influence business by providing arbitrage practice. For example, if a car is taxed at 10 per cent and leasing rates are at 18 per cent, we may have a situation where car sales could be

replaced by car leasing. In the area of composite services, a contract may be specially designed to avail the lower rates on services. Therefore, there are implications in the area of dispute management

Conclusion

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of Income distribution and, at the same time, also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development. The ongoing tax reforms on moving to a goods and services tax would impact the national economy, International trade, firms and the consumers. GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and services tax. A single rate would help maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some special goods and services. It is also expected that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central and state Government. GST will not increase the tax burden drastically, and in many cases total tax burden will decline due to removal of cascading effect by one tax systems. The biggest gain shall be from increase in competitiveness and ease of doing business which GST brings with it. The overall impact is expected to be positive on economy thereby increasing the overall economic growth.

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