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Impact of GST on Indian Economy

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Abstract

GST stands for Goods and services Tax, it is one of the tax that reflects the tax structure that is being developed to enhance the economic and structural growth of the country. The implication of GST was done in a view to simplify the complex tax structure in the sector of manufacturing, sales of goods and various services. The GST bill was prepared, in 2014, as per the 122nd amendment with a view to facilitate the tax structure of the country, but due to certain political and summated reasons, it remained pending for three long years. GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. The GST is expected to replace all the indirect taxes in India. At the centre's level, GST will replace central excise duty, service tax and customs duties. At the state level, the GST will replace State VAT. 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 endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. GST is being touted as one of the biggest tax reforms in india.The present research paper is an attempt to study concept of GST and benefits and its impact on Indian economy.

Keywords : GST, Economic development, Tax Structure, Tax System.

Introduction

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 endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. GST stands for Goods and services Tax, it is one of the tax that reflects the tax structure that is being developed to enhance the economic and structural growth of the country. The implication of GST was done in a view to simplify the complex tax structure in the sector of manufacturing, sales of goods and various services. The GST bill was prepared, in 2014, as per the 122nd amendment with a view to facilitate the tax structure of the country, but due to certain political and summated reasons, it remained pending for three long years. Goods and Services Tax is a broad based and a single comprehensive tax levied on goods and services consumed in an economy. GST is levied at every stage of the production-distribution chain with applicable set offs in respect of the tax remitted at previous stages. It is basically a tax on final consumption. In simple terms, GST may be defined as a tax on goods and services, which is leviable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. India, being one of the largest democracies in the world, has to follow the convention of welfare state. The federal structure of the country provides a relatively powerful government at the centre accompanied by 28 state governments. All of them require finance to govern the country and the states. After introduction of Value Added Tax (VAT) from 2005, the country is going to experiment with Goods and Services Tax (GST) from April 1, 2013. This paper puts an attempt to explore the impacts, implications and policies of introduction of GST in India.

Objective

1. To understand the concept of goods and service tax and how it work in india.
2. To learn about shortcomings of current taxation system in India.
3. To understand the benefits of GST over the current taxation system in India.

Resarch Methdology

The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax.

Need For Goods And Services Tax In India

Firstly, while the present system allows for multiplicity of taxes being collected through an inefficient and non transparent system, the introduction of GST is likely to rationalize it and thereby plug the loop holes in this system. This will enable the government to stop pilferage and rationalize the overall taxation regime. While many areas are either under-taxed or non-taxed or over-taxed, the GST will help reduce overall tax burden of many organizations. Introduction of an integrated Goods and Services Tax (GST) to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa [7]. Separate taxation of goods and services often requires splitting of transactions value into value of goods and services for taxation, which leads to greater complexities, administration and compliances costs. Further, 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. 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. Integration of various Central and State taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST being a destination-based consumption tax based on VAT principle, would also greatly help in removing economicdistortions caused by present complex tax structure and will help in development of a common national marked. A basis pre-requisite for introduction of GST meaningfully is that both the Centre and the State should replace existing taxes like Excise, State Sales Tax/ VAT, CST, Entry Tax and all other cascading-type Central/ State levies on goods and services.

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. Moreover, India would obtain full efficiencies of a single national VAT, while retaining a federal structure. This would also be the logical conclusion of the efforts that have been made in the country during last 2 decades in moving towards VAT. The benefits of GST legislation will be uniformity of laws across the board, greater transparency, neutrality in tax rates on various products; credit availability on interstate purchases and reduction in compliance requirements. IfGST is implemented in the true spirit, it will have many positives for the stakeholders and will lead to a better tax environment.(Jain, 2013)

Benefits of GST

The implication of GST assures a single taxation system in the entire country for all goods and services making tax compliance easier and more effective. The major benefits of this proposal according to Report of Task Force on Implementation of GST on the website www.goodsandservicetax.com are:

1. **TO MITIGATION OF MULTIPLE LAYER OF TAXES**
   There would be an input tax credit system to ensure that there is no cascading of taxes.
2. **TO ABOLITION OF MULTIPLE LAYER OF TAXES**
   GST will integrate central excise, service tax, sales tax, value added tax etc. into one tax.
3. **TO INCREASE IN VOLUNTARY COMPLIANCE**
   As all the information will flow through the common GST network it would make tax payment and compliances a regular norm with lesser scope for mistakes.

4. TO INDUSTRY, TRADE AND AGRICULTURE

The present forms of CENVAT and State VAT have remained imperfect in fully removing the cascading burden of taxes already paid at earlier stages. Besides, there are several other taxes, which both the Central Government and the State Government levy on production, manufacture and distributive trade, where no specific set-off is available in the form of input tax credit. Thesetaxes add to the cost of goods and services through "tax on tax" which the final consumer has to bear. Since, with the introduction of GST, all the cascading effects of CENVAT and service tax would be removed with a continuous chain of set-offs from the producer's point to the retailer's point, 12other major Central and State taxes would be included in GST, and Central Sales Tax (CST) will also be phased out, the final net burden of tax on goods, under GST is expected to fall. According to some economists, since there would be a transparent and complete chain of set-offs, this will help widening the coverage of tax base and improve tax compliance [10]. This may lead to higher generation of revenues, which may in turn lead to the possibility of lowering of average tax burden. Hence, the GST is expected to give more relief to industry, trade and agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several Central and State taxes in the GST and phasing out of CST.

5. TO THE EXPORTERS

It has been argued that the inclusion of major Central and State taxes in GST, complete and comprehensive setoff of input goods and services and phasing out of Central Sales Tax (CST) would help in reducing the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market (by reducing the cost of inputs). It can be expected that the uniformity in tax rates and procedures across the country via GST would also be helpful in reducing the compliance cost.

6. TO THE SMALL ENTREPRENEURS AND SMALL TRADERS

A general argument is that the cost of administering the tax on small entrepreneurs in any tax regime is fairly high. Hence, considerable cost could be saved if an exemption threshold can be made where potential taxpayers with turnovers less than this threshold level would be exemptedfrom the regime. However, in case where certain small traders would be exempted from the tax net by providing a threshold, there might be a tendency for other traders to underestimate their turnover in order to exploit the benefit of not paying taxes. Therefore, it is proposed that there be another threshold, below which the dealers can opt for a compounded tax based on the turnover. The Empowered Committee of State Finance Ministers had suggested a cut-off at Rs 50 lakh and a floor rate of 0.5 per cent across the States.

7. TO THE COMMON CONSUMERS

It has been argued that, with the introduction of GST, all the cascading effects of CENVAT and service tax will be more comprehensively removed with a continuous chain of set-off from the producer's point to the retailer's point than what was possible under the prevailing CENVAT andVAT regime. Certain major Central and State taxes will also be incorporated in GST and Central Sales Tax or CST will be phased out. Due to this enhanced transparency and rationalization of tax structure, the burden of tax on goods would fall under GST and that would benefit the consumers by lowering the overall tax burden on goods consumed by them.(Jain, 2013)

8. To The Centre And State

Approximately $ 15 billion a year of profits are predicted by the government with the implementation of GST as it is speculated to bring about raise in employment, promotion of exports and consequently a significant boost in overall economic growth. "The implementation of a comprehensive GST in India is expected to lead to efficient allocation of factors of production thus leading to gains in GDP and exports. This would translate into enhanced economic welfare and returns to the factors of production, viz. land, labour and capital" Mr. Premnath Hegde H.N., Chartered Accountants, Premnath Hegde and Co.

Another positive aspect of this proposal is that it is aimed at equitable division of tax burden between the manufacturing and services. "GST will be the biggest reform after 1991 and its implementation alone would add 1.5-2 percentage point to India's GDP growth. (N.GUPTA, 2014)

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 endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. Cascading tax revenues have differential impacts on firms in the economy with relatively high burden on those not getting full offsets. This results in loss of income and welfare of the affected economy. The ongoing tax reforms on moving to a goods and services tax would impact the national economy, International trade, firms and the consumers There has been a good deal of criticism as well as appraisal of the proposed Goods and Services Tax regime. It is considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country. GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax – a justified step forward. India is a federal republic, and the GST will thus be implemented concurrently by the central and state governments as the Central GST and the State GST respectively and it appears that there will be different rates of taxes. However 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/or services. This will reduce litigation on classification issues. With regard to exports the tax to be levied under the destination principle, i.e. exports should be tax-free and imports should be taxed at the same rate as domestic products. It is expected that SEZ's would be exempted from levy of GST. 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 Government and the State Government.

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