GST and its impact on the Indian Economy

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ABSTRACT

GST as known as one nation one tax is the direct offshoot of digital India and also put direct impact on digital India. No single dimension of economy is left untouched by GST. It is one of the major tax reforms and very important step for implementation of digital India. In this paper different dimensions of economy are correlated with GST emphasizing their influence on each other. GST rates along with TDS and TCS provisions are discussed in the paper.

1. Introduction

The idea of single tax first came into existence from European countries and later this type of tax is reformed as GST (Goods and Services Tax). More than 160 countries have successfully implemented GST in their respective tax regime. GST will mostly subsumed all indirect taxes levied by the Central and State governments in India. GST is a broad based tax on supply of goods and services. GST Bill also glanced as the constitution one hundred twenty second amendment Bill 2014. GST regime in India is destination based tax that is levied on every value addition. Under GST consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading effect on tax paid on inputs. In India" Dual GST" model has been followed. The GST act was passed in the Parliament on 29th March 2017. The GST act came in effect on 1st July 2017.

2. Review of Literature

Garg (2014) described the impact of GST with a brief description of the historical outline of Indian taxation and its tax framework and discussed the possible threats, challenges and opportunities that GST brings to make strong our free market economy.

AkanshaKhurana and Aastha Sharma(2016) in their research paper on GST- A positive reform for Indirect taxation system described that the GST will give relief to manufactures and consumers by providing wide coverage of input tax credit set-off, service tax set off and substituting the several taxes.

Hitesh k.Prajapati (2016) in his research paper described that Challenges in Implementation of GST in India like IT sector is not boomed properly, threshold limit of turnover for dealers under GST is another problem of dispute between the government and the Empowered Committee etc.

Dr. ShakirShaik, Dr. S.A.Sameera, Mr. Sk.C. Firoz in their paper on Does Goods and Services Tax Leads to Indian Economic Development? described in conclusion that GST in the India will lead to commercial advantages which were never touched by the VAT system and would essentially lead to sustainable development. Hence GST may lead to collective gain for industry, trade, agriculture and consumers as well as for the Government.

3. Objectives

1. To study the features of GST.
2. To study the types and rates of GST.
3. To study the impact of GST on Indian economy.

4. Research Methodology

The research paper is an attempt of research based on the secondary data sourced from journals, Internet, articles, previous research papers which focused on the various aspects of goods and service act. According to the requirements of the objectives of the study the design is descriptive type. The accessible secondary data is used only for study.

5. Types and rates of GST

State GST: State GST is levied by respective State Government on intra state transactions. All State taxes got subsumed in SGST such as value added tax, luxury tax, entry tax, entertainment tax etc.

Central GST: Central GST is levied by the Central Government on Intra State transactions. All Central taxes got subsumed in CGST such as service tax, custom duty and Central surcharges etc.

Union territory GST: UT GST is levied by the Central Government on Intra UT transactions. Integrated GST: IGST is levied by the Central Government on Inter State transactions.

GST Rates:

The tax under GST system will be collected at the prescribed rates not exceeding forty percent. GST rates are divided in four slabs of 0%,5%, 12%, 18% and 28% apart from nil rate. Petroleum products are still out from the criteria of GST.

6. Impact of GST on key sectors of Indian economy

GST is the biggest tax reform for the Indian economy. It has taken into its aura almost all the sectors of economy which are explained as follows:
Real Estate:

GST seeks to transform India with its "One Nation, One tax" principle and all signs indicate that real estate sector won't be left out of transformation. The real estate sector is the one of important sectors of Indian economy. It is the largest employer in Indian economy after agriculture. In the past the real estate sector was in disputes due to ambiguity in provisions as well as multiple taxation but now under GST it has positive impact as a whole. The construction of a building, civil structure intended for sale to a buyer, wholly or partly is subject to 12% GST after deducting value of land with full input tax credit.

E-Commerce:

E-commerce websites such as paytm and flipkart will have to collect TCS(Tax Collected at Source) at a fixed rate 1% on the net values of sales as the GST liability of the seller and deposit it to the government. The sales reported by e-commerce operator and seller need to tally at the end of each month. E-commerce operators have to acquire compulsory registration. They are not eligible for composition scheme.

Travel and Tourism:

Under GST council, hotel with tariffs less that Rs. 1,000 are free from tax. Hotel rooms with tariffs Rs.1,000-2,500 are taxed at 12% while with a tariff of Rs. 2,500-7,500 are liable for 18% and above Rs. 7,500 are taxed at 28%. Under GST the process to claim and avail ITC( input tax credit) is very simple and clear. Budget travelers also have a reason to smile as air travel for economy class passengers has become cheaper. On the other hand, business class fares are going to cost more with a marginal increase from earlier 9% to GST rate of 12%.

Banking Sector:

Banks have been levying service tax on most of the transactions enabled by their system. The services provided by the banks taxed at the rate of 18% under GST instead of the 15% service tax rate that was being charged earlier. However deeper analysis reveals that such an increase in cost should not be considered as negative impact of GST on financial service sector. In long run, the banks will be able to transfer the advantage of input tax credit under GST to the customers. Services like fixed deposits and other bank account deposits that were outside the ambit of service tax will continue to remain outside the GST ambit.

Agriculture Sector:

The impact of GST on agriculture sector is foreseen to be positive. The agricultural sector is the largest contributing sector covers around 16% of Indian GDP. GST is necessary to improve the transparency, reliability and timeline of supply chain mechanism. A better supply chain mechanism would ensure a reduction in wastage and cost for the farmers. Under GST regime poultry farming, dairy farming and stock breeding are kept out of the definition of agriculture. These will be taxable under the GST. Fertilizers are an important element of agriculture was previously taxed at 6%. In GST the tax on fertilizers has been increased to 12%. This is beneficial as now the agriculturist will be able to claim input tax credit. Under GST the rate of fresh milk is nil but GST charged on skimmed milk is 5%and condensed milk is going to be taxed at 18%.Though implementation of GST is beneficial to farmers in the long run as there will a single unified agriculture market.

Smart phones:

Under GST regime smartphones are being taxed at 12% as compared to an earlier range of 8-18% implemented in various states. This will make mobile handsets a bit cheaper than they are right now.

7. Conclusion

GST will be beneficial for the economy on various counts.GST is a major improvement over the previous system of VAT and Services tax. A single rate mechanism would help maintain the simplicity, uniformity and transparency by treating all the goods and services as equal without giving special treatment or reference to some ‘special’ goods and/or services. It can be used as an effective and efficient tool for fiscal policy management if implemented properly due to nation-wide same tax rate. It can be further said that GST will have a positive impact on almost various sectors and industry as well. It’s the world wide accepted taxation and India will be joining this system too. Though there are few hurdles in adapting and running this taxation system in India because Implementation of GST requires collected efforts of all stakeholders though it be Governments, industries or customer. Thus more steps should be taken by the authorities to fully implement the tax. In India, successful Implementation of GST would also help in removing the economic and other distortions due to the current complex tax regime and will help in development of a national market.

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