

GST Implementation and Its Impact on Indian Economy

***Dr.V.Shanmugasundaram**

****Dr.T.Lakshmi**

*Assistant Professor, Department of Business Administration, DDE, Annamalai University, Annamalainagar

**Assistant Professor, Department of Commerce and Management, Maharani College of Arts, Commerce and Management for Women, Bangalore

Abstract

In India indirect taxes have driven business community to restructure and model their business systems owing to multiple taxes and costs involved. With the implementation of GST (Goods and Services Tax) the entire Indirect tax system like excise, sales tax, service tax, VAT may vanish. Implementation of GST is expected to improve growth opportunities for the organized sector and bring the unorganized sector under a uniform tax base. It will turn India into one common market leading to greater ease of doing business and big savings in logistics costs from industries across all sectors. It is expected to influence the cascading effect of the existing tax structure and result in uniting the country economically. GST will widen the tax base and ensures uniformity in tax system across the states. This research paper will highlight the positive and negative aspects of GST implementation and analyse it sector wise. This paper further explores various benefits and opportunities of GST with a concluding remark.

Key words: Goods and Services tax, sector, growth, implementation, business, economy

Introduction

In recent years, Indian archaic taxation structure has been on the criticism and there is need for a simpler, flat tax structure that will potentially do away with the complicated policy. As the next level policy reform in indirect taxation, Goods and services tax (GST) has taken a centre stage in this respect and is hoped to iron out the wrinkles in the existing tax system. Tax policies play an important role on the economy through their impact on both efficiency & equity and it is high time India braced itself for a relook at the current status. Historically, India has relied too much on indirect taxation because of political compulsions, an agrarian economy, low income levels and lack of infrastructure to track personal income. In order to simplify and rationalize indirect tax structures, Indian Government attempted various tax policy reforms at different times. While VAT was a welcome change during 2005, over the years, people have identified shortcomings in the structure while levying VAT both at Central level and State level. Finally, there is lack of integration of VAT on goods with tax on services at the state level and hence the cascading effect of service tax. To overcome these issues, GST is introduced with great difficulty in both the houses of the parliament. GST is a value added tax which will be levied on both goods and services (except for a list of exempted goods and services) at both the centre and state level.

Review of literature

Garg(2014) analysed the impact of GST implementation and concluded that it will strengthen out free market economy. He further revealed that this tax structure will in future unite the country economically. **Bird (2012)** summarized in his article that GST created an integrated sales tax in a Federal Country the impact of GST will be on Canada. **Kumar (2014)** in his article on the impact of GST in India found that a way forward background, salient features and finally concluded that the positive impact of GST on present complex tax structure. **Vasanthgopal(2011)** in his article found a big leap in the indirect taxation system and analysed the impact of GST on various sectors of the economy and explored the new impetus to India's economic change. **Akansha Kurana and Aastha(2016)** explored various benefits

and opportunities of GST and analysed the impact of GST in the present tax scenario in India. Anand L and Sahil Kapoor(2016) analysed the challenges on implementation of GST and highlighted the positive and negative impact in various sectors of the economy.

Objectives of the study

1. To highlight the objectives of the proposed GST.
2. To examine the influence of cascading effect on the existing tax system in India.
3. To explore the benefits and opportunities of the implementation of GST.
4. To analyse the impact of GST implementation on various sectors.

Methodology of the Study

This research study focuses on the extensive review of secondary data collected from various journals, magazines, government publications, various web sources focused towards Goods and Services Tax.

Impact of Goods and Services Tax in various sectors

Objectives of GST

Economic Union of India, Simpler Tax Structure, Uniform Tax Regime, Greater Tax Revenue, Competitive pricing, Fillip to exports.

Information Technology sector

IT companies can have several delivery centres and offices working together to service in a single contract. GST will eliminate multiple levies. It will also allow deeper penetration of digital services.

FMCG sector

Companies could generate substantial savings in logistics and distribution costs as the need for multiple sales depots will be eliminated. FMCG companies pay nearly 25% including VAT, and entry tax. GST at 17-19% could yield significant reduction in taxes.

Automobile sector

On road price of vehicles could be reduced by 8%. Lower prices can be construed as indirect stimulus to boost volumes. Demand for commercial vehicles may hit in the medium term. GST will subsume local taxes, reduce time at check posts, ease logistics hurdles.

Telecom sector

Handset prices are likely to come down across states. Manufacturers are also likely to pass on to consumers cost benefits they get from consolidating their warehouses and efficiently managing inventory. For handset makers, GST will bring in ease of doing business as they may no longer need to set up state specific entities and transfer stocks to them and invest heavily into logistics of creating warehouses in each state across the country.

Media

DTH, film producers and multiplex players are levied service tax as well as entertainment tax, GST will bring major change and uniformity in business. Taxes could go down by 2% and above. Multiplex chains will save on revenues as there will be a uniform tax, unlike current high rate of taxes. It may lower the average ticket price, and increase the footfalls in multiplexes.

Infrastructure sector

The Indian Infrastructure sector largely comprises of power, road, port, cement, railways and mining. The indirect tax levy is different and unique for each of the sectors. With the implementation of GST the multiplicity of taxes will be removed and it would increase the tax base with continuation of exemptions and concessions for national interest and growth.

Food industry

The implementation of GST to food items will have a significant impact since food constitutes a large portion of the consumer expense of lower income households. Hence extending GST to food processing sector will also cause difficulty in view of the fact that production and distribution of food is largely unorganized sector in India.

Major findings

The GST will reshape the indirect tax structure by subsuming majority of indirect taxes like excise, sales and services levies. This will do away with the complex indirect tax structure of the country, thus improving the ease of doing business in the country.

Exports will become competitive as the GST regime will eliminate the cascading impact of taxes.

GST will lead to the creation of a unified market, which would facilitate seamless movement of goods across states and reduce the transaction cost of businesses. The GST will help bring down logistical costs.

Under the GST, manufacturers will get credits for all taxes paid earlier in the goods/services chain, thus incentivising firms to source inputs from other registered dealers. This could bring in additional revenues to the government as the unorganised sector, which is not part of the value chain, would be drawn into the tax net.

To claim input tax credit, each dealer has an incentive to request documentation from the dealer behind him in the value-added/tax chain. Thus, the new tax regime is seen as less intrusive, more self-policing, and hence more effective way of reducing corruption.

The supplier, because of the paper trail left by the GST, knows that his evasion will be more likely to be detected once his client is audited. Experts say that GST will improve tax compliance.

A Finance Ministry report said that the GST regime will boost the 'Make In India' programme as manufacturers will get input tax credits for capital goods.

The clean-up of the Indian taxation system will reduce the number of excise duty exemptions. According to the government's estimates, excise tax exemptions result in foregone revenues of Rs. 1.8 lakh crore.

The service tax rate could shoot up from the current level of 15 per cent (including Krishi Kalyan Cess). Under the GST tax regime, this tax rate may go up to 18 per cent. This has led to fears that inflation could rise in the short term.

Implementation of GST is expected to lead a temporary rise in inflation, which will typically last a year. Inflation in the second year after GST implementation will benefit favourably as the numbers would be compared to already-high figures of the first year of implantation.

Conclusion

The concept of GST is more streamlined towards a longer – term perspective but does involve some short – term challenges which will have to be overcome, such as that of the administrative costs that would have to be borne in coming up with an administrative system

for GST and for working out the transitional agreements. Additionally, the tax proposal still faces opposition from states who are unwilling to give up control on their tax revenue sources. Given the different tax structure prevalent in all states, the negotiations over GST seem to hit a roadblock every time over the transition of the local tax system so as to integrate it with a national one. However, once implemented, the system holds great promise in terms of bolstering growth for the India economy while bringing it more in line with the tax system followed internationally.

References

1. Bird, Richard (2012), The GST/HST: Creating an Integrated Sales Tax in a Federal country. The School of Public Policy, SPP Research papers, 5(12), 1-38.
2. Garg, Girish(2014), "Basic Concepts and Features of GST in India", International Journal of Scientific Research and Management Issue 2(2), pp542-549/
3. Kumar and Nitin(2014) "Goods and Services Tax in India: A way forward", Global journal of Multidisciplinary Studies, 3(6), pp216-225.
4. Vasanthagopal(2011), "GST in India: A big leap in the Indirect taxation system", International Journal of Trade, Economics and Finance, 2(2), pp.144-146.
5. Akansha Khurana and Aastha Sharma(2016), "GST in India- A Positive Reform for Indirect Tax System", International Journal of Advanced Research, vol.4, Issue 3, pp.500-505.
6. Anand Laddha and Sahil K(2016) "GST will change the way India does business: who will win and who will lose" Economic Times Daily Aug.13, 2016.
7. Agrawal, Puneet (2016-07-11), "Analysis of 122nd Constitutional Amendment Bill". GST Law in India. Athena Law Associates.