

## **GST And ITS Implications on Indian Economy**

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**Abstract:** *Recently w.e.f 1st July 2017, India has witnessed one of the biggest taxation reforms which aim to integrate the state and central economies and thereby boost overall growth. Called the GST meaning Goods and service tax, it is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. The GST is an undertaking that is expected to provide the much needed stimulant for economic growth in India by transforming the existing base of indirect taxation towards the free flow of goods and services. The Single system of taxation is expected to significantly ease double taxation and make taxation overall easy for Industries. GST is not only beneficial for Industrialists in making both domestic and International market competitive but also for the final consumers in terms of reduction in the overall tax burden on goods and services. Thus GST will be very easier to administer and performs predominant role in terms of sustaining growth of Indian economy. According to the experts and critics, terms of the GST such as the CGST, SGST and IGST are nothing but just a new name in accordance with the existing tax systems. Kind of Old wine in a new bottle. GST will be the new regime of indirect tax in the nation and seek to end all the existing indirect tax rules. It will schedule a coalition between the central and the state governments. However like a coin has two sides to it, the implementation of GST also has its pros and cons. This study discusses the GST, its contribution and after-effects to the overall growth of Indian economy. This study is based on secondary data and references.*

**Keywords:** *Central and State Economies, Indian economy, Indirect Taxation International Market, Taxation system,*

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### **I. Introduction:**

**Goods and Services Tax (GST)** is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12%, 18% and 28%. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 15% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. GST was initially proposed to replace a slew of indirect taxes with a unified tax and was therefore set to dramatically reshape the country's 2 trillion dollar economy. It is to be noted that France was the first country to implement GST.

The reform process of India's indirect tax regime was started in 1986 by Vishwanath Pratap Singh, Finance Minister in Rajiv Gandhi's government, with the introduction of the Modified Value Added Tax (MODVAT). Subsequently, Manmohan Singh, then Finance Minister under of P V Narasimha Rao, initiated early discussions on a Value Added Tax at the state level. A single common "Goods and Services Tax (GST)" was proposed and given a go-ahead in 1999 during a meeting between then Prime Minister Atal Bihari Vajpayee and his economic advisory panel, which included three former RBI governors IG Patel, Bimal Jalan and C Rangarajan. Vajpayee set up a committee headed by the then finance minister of West Bengal, Asim Dasgupta to design a GST model [1]

After the fall of the BJP-led NDA government in 2004, and the election of a Congress-led UPA government, the new Finance Minister P Chidambaram in February 2006 continued work on the same and proposed a GST rollout by 1 April 2010. However in 2010, with the **Trinamool Congress** routing CPI(M) out of power in West Bengal, Asim Dasgupta resigned as the head of the GST committee. Dasgupta admitted in an interview that 80% of the task had been done.

In 2014, the NDA government was re-elected into power, this time under the leadership of Narendra Modi. With the consequential dissolution of the 15th Lok Sabha, the GST Bill – approved by the standing committee for reintroduction – lapsed. Seven months after the formation of the Modi government, the new Finance Minister Arun Jaitley introduced the GST Bill in the Lok Sabha, where the BJP had a majority. In February 2015, Jaitley set another deadline of 1 April 2016 to implement GST. In May 2016, the Lok Sabha

passed the Constitution Amendment Bill, paving way for GST. However, the Opposition, led by the Congress demanded that the GST Bill be again sent back to the Select Committee of the Rajya Sabha due to disagreements on several statements in the Bill relating to taxation. Finally in August 2016, the Amendment Bill was passed. Over the next 15 to 20 days, 18 states ratified the GST Bill and the President Pranab Mukherjee gave his assent to it.

A 21-members select committee was formed to look into the proposed GST laws. State and Union Territory GST laws were passed by all the states and Union Territories of India except Jammu & Kashmir, paving the way for smooth rollout of the tax from 1 July 2017. There was to be no GST on the sale and purchase of securities.

### 1.1 Need for GST

Do we need GST at all. Let's begin by elaborating on the important concept of – cascading effect of taxes. It is also, logically, referred to as “taxes on taxes”. It is simple to illustrate – say A sells goods to B after charging sales tax, and then B re-sells those goods to C after charging sales tax. While B was computing his sales tax liability, he also included the sales tax paid on previous purchase, which is how it becomes a tax on tax. This was the case with the sales tax few years ago. At that time, a VAT system was introduced whereby every next stage dealer used to get credit of the tax paid at earlier stage against his tax liability. This reduced an overall liability of many traders and also helped to reduce inflationary impact this had on the prices.

Similarly in the manufacture of goods, a few changes were effected. The CENVAT credit scheme (earlier known as MODVAT) was a credit of excise duty paid at the input stages which was allowed to be set-off against the liability of excise on removal of goods. However could not avoid the cascading effect of taxes to the fullest.

### 1.2 Present System of Indirect Taxes

Let us first understand the various indirect taxes that are presently being levied by the Central & State Governments as per table 1 below.

**Table: 1**

Ref.	Tax	Levy By	Nature (Levied on)-	Can be set-off against	Covered by GST
1	Central Excise	Centre	Manufacture	1,2	Yes
2	Service Tax	Centre	Providing Services	1,2	Yes
3	Customs	Centre	Import	-	No
4	CVD* under customs	Centre	Additional Import duty (compensating excise)	1,2	Yes
5	SAD* under customs	Centre	Additional Import duty (compensating Sales Tax)	1,2	Yes
6	CST	Centre	Inter-State Sales	-	Yes
7	VAT	State	Sales within a state	7	Yes

(\*CVD – Countervailing Duty; SAD – Special Additional Duty)

- As shown in the table above, The GST shall subsume all the above taxes, except the Basic Customs Duty that will continue to be charged even after the introduction of GST. Other indirect taxes, such as stamp duties etc shall also continue.
- India has adopted a Dual GST model, meaning that the GST would be administered both by the Central and the State Governments. This makes it the first tax of its kind in India!

#### Dual GST Model

Let's begin by stating the dual GST model and the taxes levied on each kind of transaction. The below are the abbreviations for our understanding

SGST – State GST, collected by the State Govt.

CGST – Central GST, collected by the Central Govt.

IGST – Integrated GST, collected by the Central Govt.

**Table 2:**

Transaction	New System	Old System	Comments
Sale within the state	SGST and CGST	VAT & Excise / ST*	Under the new system, a transaction of sale within the state shall have two taxes, SGST - which goes to the state, and CGST which goes to the Centre.
Sale outside the state	IGST	CST & Excise / ST*	Under the new system, a transaction of sale from one state to another shall have only type of tax, the IGST - which goes to the Centre.

*It is worth mentioning here that the levy of Excise or Service Tax was not dependent on the levy of VAT/CST, as they were governed by different laws.*

## II. Objectives Of Study

1. To cognise the concept of GST
2. To showcase the need of implementing GST.
3. To evaluate the importance of GST for the development of industry in India.
4. To show the challenges faced after implementing GST
5. To suggest some changes in GST for the development of Indian economy.

## III. Review Of Literature

AgogoMawuli (May 2014)<sup>1</sup> studied, “Goods and Service Tax-An Appraisal” and found that GST is not good for low-income countries and does not provide broad based growth to poor [Sehrawat et. al., Vol.3 (Iss.12): December, 2015] ISSN- 2350-0530(O) ISSN- 2394-3629(P) Impact Factor: 2.035 (I2OR) [Http://www.granthaalayah.com](http://www.granthaalayah.com) ©International Journal of Research - GRANTHAALAYAH [133-141] countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth. Dr. R. Vasanthagopal (2011)<sup>2</sup> studied, “GST in India: A Big Leap in the Indirect Taxation System” and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also. Ehtisham Ahmed and Satya Poddar (2009)<sup>3</sup> studied, “Goods and Service Tax Reforms and Intergovernmental Consideration in India” and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST. Nitin Kumar (2014)<sup>6</sup> studied, “Goods and Service Tax- A Way Forward” and concluded that implementation of GST in India will help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations. Pinki, SupriyaKamma and Richa Verma (July 2014)<sup>7</sup> studied, “Goods and Service Tax- Panacea For Indirect Tax System in India” and concluded that the new NDA government in India is positive after the implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if this implementation is backed by strong IT infrastructure.

## IV. Findings And Analysis

### 4.1 Benefits and Impact of GST

#### 4.1.1 Removing cascading tax effect

An important benefit of the introduction of GST will be the removal of the cascading tax effect. In simple words, “cascading tax effect” means a tax on tax.

Under the previous regime, the service tax paid on input services could not be set off against output VAT. Under GST, the input tax credit can be availed smoothly across the spectrum of goods and services, thus reducing the tax burden on the end user and removing cascading effect.

#### 4.1.2. Higher threshold for registration [4]

Tax	Threshold Limits
Excise	1.5 crores
VAT	5 lakhs in most states
Service Tax	10 lakhs
GST	20 lakhs (10 lakhs for NE states)

As per the previous VAT structure, any business with a turnover of more than Rs. 5 lakh (in most states) was liable to pay VAT (different rates in different states). Similarly, for service tax, service providers with turnover less than Rs. 10 lakhs were exempted.

Under GST this threshold has been increased to Rs. 20 lakhs thus exempting many small traders and service providers.

#### 4.1.3. Composition scheme for small businesses

GST also has an optional scheme of lower taxes for small businesses with turnover between Rs. 20 to 50 lakhs. It is called the composition scheme. It has now been proposed to be increased to 75 lakhs. This will bring respite from tax burdens to many small businesses.

#### 4.1.4. Simpler online procedure under GST

The entire GST process – starting from registration to filing returns and payment of GST tax – is online. Start-ups do not have to run around to tax offices to get various registrations under excise, VAT, service tax.

#### 4.1.5. Lesser number of compliances

Also, the current tax regime has excise VAT and service tax, each of which have their own returns and compliances.

Tax	Return filing
Excise	Monthly
Service tax	Proprietorship/Partnership- Quarterly Company/LLP- Monthly
VAT	Different for different states Some states require monthly returns over a threshold limit. Some states like Karnataka require a monthly return

GST has unified all these, thereby reducing the number of returns and the time spent for tax compliances. There are about 11 returns under GST, out of which 4 are basic returns which apply to all taxable persons under GST. There are fears that the number of returns will increase after GST. But the main GSTR-1 will be manually populated. But GSTR-2, GSTR-3, GSTR-4 will be auto-populated.

#### 4.1.6. Defined treatment for e-commerce

Many Indian businesses provide goods and services through the internet. Earlier, there were no specific provisions for treatment of the e-commerce sector. Till June, states had a variable VAT laws for this sector. For example, online websites (like Flipkart and Amazon) delivering to Uttar Pradesh had to file a VAT declaration and the registration number of the delivery truck.

Again, these e-com brands are treated as facilitators or mediators by states like Kerala, Rajasthan, and West Bengal which did not require them to register for VAT.

All these differential treatments and confusing compliances will be removed under GST. For the first time, GST clearly maps out the provisions applicable to the e-commerce sector and since these will apply all over India, there should be no complication regarding inter-state movement of goods anymore.

#### 4.1.7. Increased efficiency in logistics

The logistics industry in India had to maintain multiple warehouses across states to avoid the current CST and state entry taxes on inter-state movement. Most of the times, these warehouses were forced to operate below their capacity thus increasing their operating costs.

With the GST, these restrictions on inter-state movement of goods were lessened and the logistics sector started consolidating warehouses across the country. As an outcome of GST, warehouse operators and e-commerce players have already shown interest in setting up their warehouses at strategic locations such as Nagpur, which is the zero-mile city of India, instead of every other city on their delivery route.

Reduction in unnecessary logistics costs will increase profits for businesses involved in supply of goods through transportation.

#### 4.1.8. Regulating the unorganized sector

Certain industries in India like construction and textile are largely unregulated and unorganized. GST has provisions for online compliances and payments, and availing of input credit only when the supplier has accepted the amount, thereby bringing accountability and regulation to these industries.

### 4.2 Impact of GST

#### 4.2.1. How will GST impact the Indian Economy?

- Reduces tax burden on producers and fosters growth through more production. The previous taxation structure, pumped with myriad tax clauses, prevented manufacturers from producing to their optimum capacity and led to retarded growth. GST will take care of this problem by providing tax credit to the manufacturers.
- Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to higher needs of buffer stock and warehousing costs. A single taxation system will eliminate this roadblock.

- There will be more transparency in the system as the customers will know exactly how much taxes they are being charged and on what base.
- GST will add to the government revenues by extending the tax base.
- GST will provide credit for the taxes paid by producers in the goods or services chain. This is expected to encourage producers to buy raw material from different registered dealers and is hoped to bring in more vendors and suppliers under the purview of taxation.

#### **4.3 GST: The Short-Term Impact**

From the viewpoint of the consumer, they would now have to pay more tax for most of the goods and services they consume. The majority of everyday consumables now draw the same or a slightly higher rate of tax. Furthermore, the GST implementation has a cost of compliance attached to it. It seems that this cost of compliance will be prohibitive and high for the small scale manufacturers and traders, who have also protested against the same. They may end up pricing their goods at higher rates.

#### **4.4 What the Future Looks Like**

Talking about the long-term benefits, it is expected that GST would not just mean a lower rate of taxes, but also minimum tax slabs. Countries where the Goods and Service Tax has helped in reforming the economy, apply only 2 or 3 rates – one being the mean rate, a lower rate for essential commodities, and a higher tax rate for the luxurious commodities. Currently, in India, we have 5 slabs, with as many as 3 rates – an integrated rate, a central rate, and a state rate. In addition to these, cess is also levied. The fear of losing out on revenue has kept the government from gambling on fewer or lower rates. This is very unlikely to see a shift anytime soon; though the government has said that rates may be revisited once the RNR (revenue neutral rate) is reached.

The impact of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while FDI (Foreign Direct Investment) would also increase. The industry leaders believe that the country would climb several ladders in the ease of doing business with the implementation of the most important tax reform ever in the history of the country.

#### **A Brighter Economy**

The introduction of the Goods and Services Tax has been a very noteworthy step in the field of indirect tax reforms in India. By merging a large number of Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation overall easy for the industries. For the end customer, the most beneficial will be in terms of reduction in the overall tax burden on goods and services. Introduction of GST will also make Indian products competitive in the domestic and international markets. Last but not least, the GST, because of its transparent character, will be easier to administer. Once implemented, the proposed taxation system holds great promise in terms of sustaining growth for the Indian economy.

#### **4.5 Disadvantages of GST – Challenges that Businesses Need To Overcome under GST Regime**

GST, the greatest tax reform since Independence is here. As are the challenges for businesses across the country. Like everything else, all is not smooth sailing for GST and there are some obvious challenges for businesses and end consumers which we will discuss in detail here.

##### **4.5.1. Change in Business Software**

Most businesses use accounting software or ERPs for filing tax returns which have excise, VAT, and service tax already incorporated in them. The transition to GST will require businesses to change their ERPs, too; either by upgrading the software or by purchasing new GST-compliant software. This will lead to increased costs of buying new software and training employees on how to use it.

ClearTax is the first company in India to launch a ready-to-use GST software. It is currently available at reduced prices for SMEs, to help them to transit to GST smoothly. To ease the pain of the people, it doesn't require you to update the existing software and provide free services for first 3 months.[5]

##### **4.5.2 GST Compliance**

SMEs are still not completely aware of the nuances of the new tax regime. Changing over to a completely new system of taxation requires understanding of the minutiae, which businesses lack right now. Most of them are worried about filing timely returns, but it is important to note that even before businesses can reach the filing stage they have to issue GST-compliant invoices. For a traditionally pen-and-paper economy like India, this change to digital record-keeping is going to be massive. Invoices after 1st July will need to be GST-compliant with all details such as GSTIN, place of supply, HSN code etc. as mandated by the law

#### **4.5.3 Increase in Operating Costs**

Most small businesses in India do not employ tax professionals, and have traditionally preferred to pay taxes and file returns on their own to save costs. However, they will require professional assistance to become GST compliant as it is a completely new system. While this will benefit the professionals, the small businesses will have to bear the additional cost of hiring experts.

Also, businesses will need to train their employees in GST compliance, further increasing their overhead expenses.

#### **4.5.4 Policy Change During the Middle of the Year**

GST introduced live in the financial year 2017-18. So for FY 2017-18, business had to follow the old tax structure for the first 3 months, and GST for the rest of the time. It is impossible to cross over from one tax structure to the other in just a day, and hence businesses will end up running both tax systems in parallel, which might result in confusion and compliance issues.

#### **4.5.5 Online Procedure**

GST compliance, return filing and payments all have to be done online. Many small businesses are not tech-savvy and do not have the resources for fully computerized compliance. Even as the rest of the nation gets ready to go digital, businesses in small cities across India face a huge technology problem in the days ahead.

Cloud-based software like the ClearTax GST software could be an answer to this problem. This does not require any downloads, and the process for return filing on ClearTax GST is very simple. Business owners need only upload their invoices, and the software will populate the return forms automatically with the information from the invoices. Any errors in invoices will be clearly identified by the software in real-time thus increasing efficiency and timeliness.

#### **4.5.6 Higher Tax Burden for Manufacturing SMEs**

Small businesses in the manufacturing sector will not have it easy in the GST regime. Under the excise laws, only manufacturing business with a turnover exceeding Rs. 1.50 crores had to pay excise duty. Whereas, under GST the turnover limit has been reduced to Rs. 20 lakh, thus increasing the tax burden for many manufacturing SMEs. However, SMEs with a turnover of upto 75 lakhs can opt for the composition scheme and pay only 1% tax on turnover in lieu of GST and enjoy lesser compliances. The catch though is these businesses will then not be able to claim any input tax credit. The decision to choose between higher taxes or the composition scheme (and thereby no ITC) will be a tough one for many SMEs.

### **4.6 After Effects of GST**

Disruption has followed key economic reforms by Narendra Modi-led NDA government –if it was demonetisation last year, then it is Goods and Services Tax (GST) now, baffling taxpayers with the scope of changes it brings.

#### **4.6.1 Positive After effects**

##### **Traders go digital**

Traders will have to change the way they used to do business before the advent of GST. With the tax return filing process going digital, traders will have to upgrade to electronic means to keep up. Those who used to generate invoices digitally will have to change their IT systems to accommodate changes brought about by GST.

Taxation under the new regime will be applicable on supply of goods and services. In addition to this, several procedural changes have been made to ensure high compliance like reversal of tax credit in case of failure to pay consideration for goods, self-invoicing in case of purchases made from unregistered supplier, etc. Such amendments have made it necessary for businesses to incorporate significant changes in their business processes.

In GST, it will be important to ensure that an invoice for input services is received at the place where credit of such services is eligible. Therefore, businesses need to analyse procurement of services and amend their contracts with service providers as needed. Similarly, contractual terms with customers will have to be reassessed and revised, if needed.

Traders will have to train their employees as well as stakeholders, vendors and any other party involved in your business to sensitise them about the compliance requirements imposed by GST.

##### **Check-posts removed**

With GST being a destination-based tax, **border check-posts** at state limits have become obsolete and were done away with. The first thing it did was do away with the long line of trucks stranded at the state borders waiting to be cleared by these check-posts.

With no toll booths to cross, goods carriers are transporting their cargo swiftly between states. Cutting the delay in delivery of goods has helped save crores of rupees in lost time. The process will be further streamlined with

the release of E-way Bill in a few months time. With the provisions already drafted, it will be rolled out once the E-way software is developed.

#### **Price change of essential commodities**

No change was observed in the prices of essential commodities as they were kept in the zero percent tax bracket under GST. Luxury cars made in India saw a decline in their prices, though, as they were categorised in the lower tax bracket under GST.

Motorcycles with engines bigger than 350cc were taxed at a higher rate than before under GST. Gold also saw a marginal increase in tax rates it would attract, as did telecom services. The already dearer hybrid cars would also attract more taxes under GST.

A buyer in real estate sector who paid 4.5 percent Service Tax and around 4 percent of VAT earlier, will now have to pay 12 percent GST, hiking the taxes by almost 3.5 percent which in the context of today's realty market conditions is a very significant hike, stated Sam Chopra, President of NAR India. With Stamp Duty being an additional 5-7% the taxes on realty may have reached an astounding figure of 17-19%, he further added.

#### **4.6.2 Negative After effects**

There was a drastic slowdown in the market as consumers and traders alike took some time to understand the new tax structure its requirements and repercussions. This led to the extension of the time period given by the government for filing of returns by the traders and other activities.

The Traders without the excise paid bills were the most affected as the input credit was limited to a certain percentage in such cases and this was a calculated loss for these traders.

One of the major after-effects of GST has been the negative sentiment that started developing within certain pockets of the country and facing a flak and criticism for embarking on such an important project without right preparation in place, the GST council on Friday 6 oct 2017 slashed GST rate on 27 common use items and set up a ministerial panel to consider bring down tax on AC restaurant from the current 18% to 12%. GST on unbranded namkeen, ayurvedic medicine, sliced dried mango and khakra has been cut to 5% from 12% while the same on man- made yarn used in textile sector has been reduced to 12% from 18%. Tax on stationery items, stones used for flooring other than marble and granite, diesel engine parts and pump parts has been cut to 18% from 28%. GST on e-waste has been cut to 5% from 28%. Food packets given to school kids under ICDS will attract 5% tax instead of 12%. Job works like Zari, imitation, food items and printing items would attract 5% tax instead of 12%. Government contracts involving high amount of labour will be levied 5% GST instead of 12%. [6]

## **V. Suggestions**

### **5.1. Suggestions from the view of tax experts:**

**5.1.1** Section 171 of the CGST Act provides for the Anti-profiteering measures so as to ensure that benefit of credit available is ultimately passed on to the consumer. However, with change in law and to enable ease of understanding for all the assesseees Anti-profiteering measures be kept in abeyance for 2 years. [7]

**5.1.2** In order to get acquainted with GSTN and related procedures, an optional access be provided to the interested assesseees to help them with training and understanding of GSTN systems. [7]

### **5.2 Suggestions from the view of traders:**

**5.2.1** Accessibility to internet for filing of returns is a constraint for traders in remote parts of the country. So some relaxation to be provided in such cases

**5.2.2** For the first one year frequent seminars and interactive sessions to be taken up freely by the government to elaborate and explain the processes and procedures under GST to the traders who are not clear of the same and also simultaneously extend the deadlines in such cases for filing of returns.

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