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Goods and Services Tax (GST) in India and its Impact on Indian Economy

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Abstract: In this study an attempted to the impact of Goods and Services Tax (GST) on Indian Economy. GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. The Government GST regime seeks to replace excise duty, import duties, VAT and service tax regulations, along with other cesses and surcharges, with three separate legislations namely CGST, SGST and IGST. GST would be applicable to all transactions of goods and service, and it to be paid to the accounts of the Centre and the States separately. The biggest advantage of GST is economic unification of India. It has potential to end the long-standing distortions arising out of the differential treatment of the manufacturing and service sectors. The GST reform is expected to bring in a lot of changes in Indian economy. The present structure of Indirect Taxes is very complex in India. There are so many types of taxes that are levied by the Central and State Governments on Goods & Services. This paper studies the impact of GST on Indian Economy.

Key Words: Goods and Services Tax (GST), VAT, Indian Economy, Economic development

1. Introduction

The introduction of Goods and Services Tax (GST) would be a very significant step in the field of indirect tax reforms in India. The Constitution (122nd Amendment) Bill, 2014, seeks to amend the Constitution of India to facilitate the introduction of GST in the country. 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. GST is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/services. The implementation of GST will lead to the abolition of other taxes such as octroi, Central Sales Tax (CST), State-level sales tax/Value Added Tax, entry tax, stamp duty, telecom license fees, turnover tax, tax on consumption or sale of electricity, taxes on transportation of goods and services, et cetera. The system allows the set-off of GST paid on the procurement of goods and services against the GST which is payable on the supply of goods or services. GST aims to remove barriers among states and unify the country into a common national market.

As existing law provides that the levy of service tax/excise is centre's domain in union list and sales tax on goods is state's domain except in case of interstate transactions. It is proposed to amend the legislature and hence Constitutional Amendments is proposed vide The Constitution (122nd Amendment) GST Bill, 2014. The Bill proposes to amend the Constitution to introduce the goods and services tax (GST). Parliament and state legislatures will have concurrent powers to make laws on GST. Article 246 of Constitution of India establishes the law making jurisdiction of Central and State governments over Union List, State List and the concurrent list of Schedule VII to the Constitution. Only the centre may levy an integrated GST (IGST) on the interstate supply of goods and services, and imports. The GST Council will recommend rates of tax, period of levy of additional tax, principles of supply, special provisions to certain states etc. The article 246A (1) shall empower goods and service tax law framing with both the central and state government unlike in the current case. Article 246(2) re-establishes the centre's exclusive control on interstate supply of goods & services. Importantly interstate supply of services will mark its separate significance in the proposed GST regime. The Working Group submitted their detailed recommendations on the three issues which provided a structure of GST. The Empowered Committee (EC) of the State Finance Ministers submitted their report on November 11, 2009. The report favoured a dual GST system. The dual system implied that tax was to be levied concurrently, both at the Centre and at the State level called CGST and SGST respectively. On December 20, 2014, the Empowered Committee (EC) of the State Finance Ministers (FMs) agreed to support the 122nd Constitution Amendment Bill (CAB) if the States were adequately compensated for the loss of revenue. On December 19, 2014, the 122nd CAB was tabled in Parliament for the introduction of GST that allowed a parallel levy of indirect taxes on the supply of goods or services or both by the Central and State Governments (including Union Territories). It introduced a dual taxation system subsuming the various indirect taxes levied then (Exhibit 1). The 122nd CAB was a culmination of the sustained efforts of the EC, which had been working since its constitution on July 17, 2000 (Exhibit 2). According to the 122nd CAB, 1 the term 'GST' was defined by introducing a clause 12A in Article 366 of the Constitution of India, to mean *"any tax on supply of goods or services or both except taxes on supply of the alcoholic liquor for human consumption."*, Services under the 122nd CAB means anything other than goods. State with reference to articles 246A, 268, 269, 269A and article 279A includes a Union territory with the Legislature. GST is a new story of value added tax (VAT) which gives a widespread setoff for input tax credit and subsuming many indirect taxes from state and national level. The Goods and Services Tax is a VAT to be implemented in India, which will implement on April 1, 2016. GST is envisaged to be levied on all supplies of goods and services on same taxable event by both Centre and State governments.

2. Objectives of the Study

- To study the various aspects of Goods and Services Tax system in India.
- To analyze the Impact of Goods and Services Tax (GST) on Indian Economy.
- To understand the Structure of Goods and Services Tax in India.

3. Review of Literature

Shaik Shakir, Sameera S.A., and Firoz Sk.C. (2015) in his paper "*Does Goods and Services Tax (GST) Leads to Indian Economic Development?*" examined the 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. The ongoing tax reforms on moving to a GST 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 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. Kiyawat Bharati and Kiyawat Shruti (2015) in his paper *"The Role of the Goods and Service Tax (GST) in Development of Indian Economy"* investigated the GST is betterment for taxation of goods and services as compared to VAT Excise Service Tax regime. After implementation of GST in India, there will be uniformity of taxation throughout the Country. This will result in reduction in prices of goods and services and hence this will increase the GDP as demand will also increase due to reduction in prices. G. Raghuram and K.S. Deepa (2015) in his study *"Goods and Services Tax: The Introduction Process"* investigated the GST was expected to subsume a variety of taxes and simplify the indirect tax regime. The Empowered Committee (EC) was mandated in 2007, to bring about consensus among the States to move towards GST. The important stakeholders in the process were the Government of India, individual States, industry and the committees commissioned by the GOI or EC. The deadline for the introduction of GST kept getting postponed due to the slow resolution of the challenging issues. Finally, it was tabled in the Parliament as the 122nd Constitutional Amendment Bill in December 2014. Garg Girish (2014) in his paper "Basic Concepts and Features of Good and Service Tax in India" examined the GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. One of the biggest taxation reforms in India - the GST - is all set to integrate State economies and boost overall growth. Shandilya Akshay (2013) in his study *"Goods and Services Tax: An Introductory Study of Its Impact on the Indian Economy"* investigated the 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. 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.

4. Research Methodology

This study is intended to identify the impact of GST on Indian economy, and the main reasons for switching over to GST. The study is descriptive in nature, based on secondary data. The study focuses on extensive study of Secondary data collected from books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax and Commercial Taxes Department.

5. Goods and Services Tax (GST)

Goods and Service Tax (GST) is a value added tax (VAT) and is supposed to subsume most of the indirect taxes existing at the level of state and federal governments. This will be a comprehensive tax for almost all goods and services. Some of the goods like crude oil, natural gas, turbine fuel, high speed diesel, and alcohol for human consumption are not included in the list due to import dependence, environmental and social reasons. Central Taxes to be subsumed under the Goods and Services Tax are Central Excise Duty, other Excise Duties, Service Tax, Customs Duties, and Surcharges. Apart from this some state taxes to be subsumed under GST are VAT/Sales tax, Entertainment tax, Luxury tax, Taxes on lottery, betting & gambling, State Cesses and Surcharges in so far as they relate to supply of goods and services and Entry tax. GST is the biggest tax reform for the economy. The delay in introduction of GST due to lack of political consensus is hampering the growth of the economy. GST would lower the tax rate by broadening the tax base and minimize exemption. It would increase the tax collection and bring about a change on the tax firmament by redistribution of tax burden equitably between manufacturing and services. It will also promote exports and employment and help in spurring the growth.

5.1 Concept of Goods and Services Tax (GST) in India

Goods and Services Tax (GST) is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. One of the biggest taxation reforms in India the GST is all set to integrate State economies and boost overall growth. 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. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. In India a dual GST system is being implemented. Under dual GST, a CGST and a SGST is being levied on the taxable value of a transaction. In the GST system, both Central and State taxes are to be collected at the point of sale. Both CGST and SGST will be levied on import of goods and services into the country. Full and complete set-off will be available on the GST paid on import on goods and services.

5.2 Structure of Goods and Services Tax (GST) in India

In India, Goods and Services Tax (GST) was conceived in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act, (Kelkar Committee) while analyzing prevailing indirect tax system both at Central and State level. The Kelkar Committee observed that a tax reform of nationwide dual GST which would comprehensively tax the consumption of almost all goods and services in the economy would be able to achieve ‘a common market, widen the tax base, improve the revenue productivity of domestic indirect taxes and enhance welfare through efficient resource allocation’. The existing Indian Indirect tax structure empowers levy of taxes by

Central government on manufacturing of goods and supply of services like Customs duties, Central Excise duty, Service tax etc; and State governments on goods at point of sale such as state VAT, Entry Tax, Octroi etc. The GST is consumption type VAT where only final consumption is treated as the final use of a good.

Table: 1 Road Map to Goods and Services Tax (GST) in India

Time	Events
2004	Dr. Kelkar II Task force recommended need for National GST
Jan, 2007	First GST stuffy released by Dr. Shome in January
Feb , 2007	FM announced implementation of GST by 2010 and Set up EC
April, 2007	Phasing out process of CST Started
May, 2007	Joint Working Group (JWG) Constituted by Empowered Committee
Nov ,2007	Report of JWG discussed by Empowered Committee
Nov ,2007	13th Finance commission constituted by President
April, 2008	Recommendations report is sent by EC to Government
Dec , 2008	The Govt. submitted its comments on EC report
Nov , 2009	Release of First Discussion paper by EC
Dec, 2009	13th Finance Commission submitted its report
April 1, 2010	Introduction of GST missed its first deadline
March 22, 2011	The Constitution (115th Amendment) Bill, 2011 introduced (this lapsed due to dissolution of Lok Sabha)
August 2013	Submission of report by Standing committee on Constitution (115th Amendment) Bill, 2011
Dec 19, 2014	The Constitution (122nd Amendment) Bill, 2014 introduced
Feb 24, 2015	14th Finance Commission Report tabled before Parliament
May 6,2015	Constitution (122nd Amendment) Bill, 2014 passed in Lok Sabha
May 12,2015	Constitution (122nd Amendment) Bill, 2014 referred to Select Committee of Rajya Sabha
April 1, 2016	Implementation of GST (target date as per Budget)

Figure: 1 Structure of Goods and Services Tax

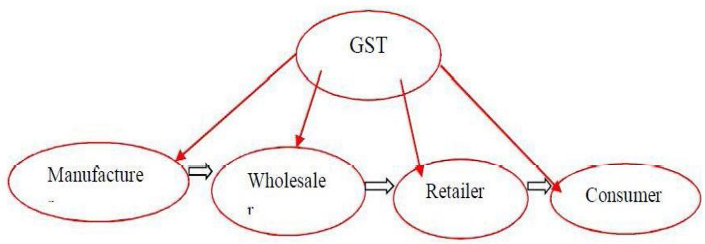
GST is expected to integrate taxes on goods and services across all supply chain for availing set-off and capture value addition at each stage. GST will involve taxation in three forms:

(i) CGST: Applicable for inter-state sale of goods and provision of services.

(ii) SGST: This form would be applicable for intra - state sale of goods.

(iii) IGST: The centre would levy IGST which would be the sum of CGST and SGST on all inter-state transactions of taxable goods and services with appropriate provisions for consignment or stock transfer of goods and services, in case applicable. GST structure to comprise of a lower rate for supply of goods and services of basic importance (amounting to total CGST and SGST levy of 10% as per Kelkar Committee report), a standard rate for supply of goods and services in general (amounting to total CGST and SGCT levy of 20% as per Kelkar Committee report), a special rate for precious metals and a list of exempted items.

Figure: 2 Applicability and Mechanism of GST



6. Impact of Goods and Services Tax (GST) on Indian Economy

The Indian economy, which has over the last six decades passed through various phases of growth, is now all set to enter an altogether different orbit: one marked by a high rate of expansion, combined with ‘inclusive growth’. There is a need for the public and the private sector in India to have a unified approach towards how they can extend, innovate, and collaborate in new ways to drive inclusive growth. Rapid and sustained poverty reduction requires inclusive growth that allows people to contribute to and benefit from economic growth. Goods and Services Tax (GST) is one of the biggest indirect tax reforms in the country since independence slated to be made applicable in the country from April 2016. A National Council of Applied Economic Research (NCAER) study, commissioned by the 13th Finance Commission has stated that Implementation of a comprehensive GST across goods and services is expected, ceteris paribus, to provide gains to India‘s GDP somewhere within a range of 0.9 to 1.7%. It is expected to bring about a 2% incremental GDP growth of the country. The additional gain in GDP, originating from the GST reform, would be earned during all years in future over and above the growth in GDP which would have been achieved otherwise. The present value of the GST- reform induced gains in GDP may be computed as the present value of additional income stream based on some discount rate.

GST will positively impact the common man in many ways. (1) It will add to the overall economic growth by removing economic distortions. It will create new employment opportunities thereby increasing the levels of income across a large section of the society, (2) It will reduce inflation if GST is levied at the combined rate of 12% as recommended by the 13th Finance Commission, (3) It will decentralize production to areas enjoying comparative advantage so more jobs can be expected to be created in rural areas. This will in turn slow down the pace of migration to urban areas, (4) It will improve governance since the introduction of a comprehensive GST will bring about more transparency and an end to crony capitalism, and (5) GST can create further opportunities for relief under direct taxes over time since it is viewed as a revenue generating machine. GST is a simple, transparent, and efficient system of indirect taxation. It is a comprehensive value added tax on the supply and consumption of goods and services in an economy. It will help in eliminating tax induced economic distortions and gives boost to the economy. The GST with its uniform taxation structure can be one of the most important steps towards achieving the task of inflation management and GDP growth. The current indirect tax regime suffers from significant cascading which leads to higher cost of goods and services consumed in the country. There are also numerous examples where the tax payers or consumers have to pay both Centre and State taxes on a single sale which adds to increased tax costs for business and consumers. Such increase costs add to the inflationary pressure in the economy. There are also estimates that GST can tax reform has the potential to add **up to 2% to India's GDP.** The GST reform is an attempt to simplify and harmonize the tax structure. This will significantly lower the compliance cost for tax payers and also make its administration uniform across the states. The biggest advantage is expected in the form of a reduction in the overall tax burden on goods which under current estimations stands around 25 to 30%. Currently in India, there are various taxes being managed differently by Central and state government like Central excise duty, service tax and customs duties at the Central level and VAT, entertainment tax, luxury tax or lottery taxes at state level. Everything will get replaced by one single point of taxation i.e. Goods and Services Tax (GST). GST applies at all points in the supply chain and there is a risk of significant leakage if the collection of taxes on such highly taxed products is shifted to smaller dealers and retailers.

7. Conclusion

Goods and Services Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. One of the biggest taxation reforms in India the GST is all set to integrate State economies and boost overall economic growth. India is a centralized democratic and therefore the GST will be implemented parallel by the central and state governments as CGST and SGST respectively. Goods and Services Tax, if implemented, will replace most of the existing indirect taxes. GST is also different in the way it is levied - at the final point of consumption and not at the manufacturing stage. Once GST is implemented, all these taxes would cease to exist. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied - at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST, there would be only one tax rate for both goods and services. The goods and services Tax will indeed be a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector.

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