



IMPACT OF GOODS AND SERVICES TAX ON INDIAN ECONOMY

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KEYWORDS :

Introduction

The GST is basically an indirect tax that brings most of the taxes imposed on most goods and services, on manufacture, sale and consumption of goods and services, under a single domain at the national level. In the present system, taxes are levied separately on goods and services. The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services and it is payable at the final point of consumption. At each stage of sale or purchase in the supply chain, this tax is collected on value-added goods and services, through a tax credit mechanism.

It is important to understand that GST is not a tax concession scheme where the government has reduced the tax rates and hence all the goods and services would become cheaper once GST is implemented. Government was attempting to fix a single Revenue Neutral Rate (RNR) on the goods and services so that the total tax revenue of the State and the Central Government remain the same. However, due to practical considerations and keeping in view the social conditions of India, four GST slabs have been set at 5%, 12%, 18% and 28% for different items or services. There is also a special rate for precious metals. The rate of 18% would however be applicable for most goods and services. Government is trying to see that the new GST rates remain more or less similar to the effective tax rates of excise, service tax and VAT in the present time. Hence, the prices of most commodities would remain the same. However, the immediate impact of GST would be as following. All the services would become more expensive immediately since the present Service Tax rate is only 15% which is now raised to 18% in GST. Some goods would become cheaper due to lower rates levied on such items. Most goods would become more expensive since the GST rate of 18% or 24% is much more than the present VAT rates which is around 12-15%. The dealers and retailers are NOT likely to pass on this extra rate immediately to the consumer and they would profit from the increase Input Credit Tax (ICT). However, soon the consumer would reap the benefit and the prices would come down.

A dual GST system is planned to be implemented in India as proposed by the Empowered Committee under which the GST will be divided into two parts:

1. State Goods and Services Tax (SGST)
2. Central Goods and Services Tax (CGST)

Both SGST and CGST will be levied on the taxable value of a transaction. All goods and services, leaving aside a few, will be brought into the GST and there will be no difference between goods and services. The GST system will combine Central excise duty, additional excise duty, services tax, State VAT entertainment tax etc. under one banner.

The GST rate is expected to be around 14-16 per cent. After the combined GST rate is fixed, the States and the Centre will decide on the SGST and CGST rates. At present, 10 per cent is levied on services and the indirect taxes on most goods is around 20 per cent.

Impact of GST

Introduction of a GST is very much essential in the emerging environment of the Indian economy. There is no doubt that in production and distribution of goods, services are increasingly used or consumed and vice versa. Separate taxes for goods and services, which is the present taxation system, requires division of transaction values into value of goods and services for taxation, leading to greater

complications, administration, including compliances costs. In the GST system, when all the taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing and services. GST will be levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail outlets). This will help in removing economic distortions and bring about development of a common national market. It will also help to build a transparent and corruption-free tax administration. Presently, a tax is levied on when a finished product moves out from a factory, which is paid by the manufacturer, and it is again levied at the retail outlet when sold.

According to experts, by implementing the GST, India will gain \$15 billion a year. This is because, it will promote more exports, create more employment opportunities and boost growth. It will divide the burden of tax between manufacturing and services. In the GST system, taxes for both Centre and State will be collected at the point of sale. Both will be charged on the manufacturing cost. Individuals will be benefited by this as prices are likely to come down and lower prices mean more consumption, and more consumption means more production, thereby helping in the growth of the companies.

- Reduce tax burden on producers and foster growth through more production. This double taxation prevents manufacturers from producing to their optimum capacity and retards growth. GST would take care of this problem by providing tax credit to the manufacturer.
- Various tax barriers such as check posts and toll plazas lead to a lot of wastage for perishable items being transported, a loss that translated into major costs through higher need of buffer stocks and warehousing costs as well. A single taxation system could eliminate this roadblock for them. A single taxation on producers would also translate into a lower final selling price for the consumer.
- Also, there will be more transparency in the system as the customers would know exactly how much taxes they are being charged and on what base. GST would add to government revenues by widening the tax base.
- GST provides credits for the taxes paid by producers earlier in the goods/services chain. This would encourage these producers to buy raw material from different registered dealers and would bring in more and more vendors and suppliers under the purview of taxation. GST also removes the custom duties applicable on exports. Our competitiveness in foreign markets would increase on account of lower cost of transaction.
- The proposed GST regime, which will subsume most central and state-level taxes, is expected to have a single unified list of concessions/exemptions as against the current mammoth exemptions and concessions available across goods and services.
- The present scheme of indirect tax results in cascading effect of taxes, and thus in certain scenarios the taxes paid on procurements are not available for setting off the output tax liability. This leads to formation of a tax cost and rise in price of the commodities. The GST implementation is expected to curb this cascading effect, and provide a seamless credit to the supplier of goods and services. In turn, there will only be a tax on value addition and no business costs in terms of taxes paid on procurement of inputs, input

services, or raw material.

- Today, we have Value Added Tax (VAT), which is levied on sale of goods and administered at state level. Under the VAT laws, there are Schedules which outlines the tax rate on commodities with their brief description. This description and fitment may vary from state to state which leads to price variation. Besides this, there are certain local taxes and duties (such as entry tax) which are levied only in identified states. With GST coming in, all these complexities will be ironed out, and there will be uniform prices across nation. Implementation of GST is most commonly echoed as 'one nation, one tax, one market'.
- As a matter of consumer right, he is entitled to be of information including taxes and duties relating to products and services that he consumes. The kind of efforts that government is taking to educate the masses, it will create awareness amongst the consumer regarding the proposed GST structure and its transparency measures. A major change would be elimination of MRP-based taxation, where consumer was never aware of taxes inbuilt in the price of commodities. Also there will be an end to dual taxation (levy of service tax and VAT at the same time), which is prevailing today in software and restaurant sector.
- GST will have minimum exemptions. The existing benefits will be grandfathered under GST only where necessary and it is expected that few of the exemptions and tax holidays will be put in their sunset mode. Removal of such benefits, may burn a hole in the pocket of consumers as they have to bear an economic burden of tax cost (GST), which businesses will pass through to them. Further, the government has introduced a levy of cess on certain goods (tobacco products, coal, aerated water, motor cars), to be commonly be known as 'compensation cess'. This charge of additional 'cess' will make these goods costlier than the existing prices. Also the services are expected to be costlier by three percent, and the rate under GST may increase to 18 percent.
- The implementation of GST will provide numerous business opportunities to decide on warehousing and logistics. It is expected that there will be a better accessibility of goods and services under GST, as the consumer need not travel across states for making a purchase to save tax. Further, the online shopping companies will plan their operations to reduce the lead time, while managing the warehousing facilities, which today are contingent on filling complexities of present tax structure.

Conclusion

As a consumer, one is eagerly waiting for announcement of tax rates and proposed list of exemptions. Using which, he will apply a gross mathematics and decide on his major purchases during this transition period. Say, motor cars are expected to be expensive in GST, a consumer will look forward to buying the same before GST kicks in. Indirect taxes will follow the consumer, no matter in what name and shape, and he (consumer) will have an inevitable encounter with them as an essential element in price of goods and services. What an informed consumer can do is be aware of applicable taxes on his purchase. The introduction of Goods and Services Tax would be a very noteworthy step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would alleviate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of reduction in the overall tax burden on goods and services. Introduction of GST would also make Indian products competitive in the domestic and international markets. Last but not the least, this tax, because of its transparent character, would be easier to administer. However, once implemented, the system holds great promise in terms of sustaining growth for the Indian economy.

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