



Impact of GST on Indian Economy

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ABSTRACT

GST Stands for Goods and Services Tax (GST). The GST Act was passed in the Lok Sabha on 29th March, 2017 and came into effect from 1st July, 2017. It was termed as One Nation One Tax. The major impact of introducing GST in India is the transformation in the fiscal structure of the Indian federal setup. The fiscal right of the states and centre to deal with goods and services independently will be taken away and both the Governments have to depend on each other's for managing the so called goods and services tax in future. This is a very hard blow to the freedom of participating governments in the federal system. The perceived benefits are –

- **GST would eliminate to a large extent, the multiplicity of administrative mechanisms and tax rates across different states.**
- **It removes many of the cascading effects of indirect taxation.**
- **Its positive impact on retail as a whole will make supply chain more cost effective.**
- **It is expected to address most of the complex issues in taxation like software, intangibles, composite contracts etc. and brings more clarity in the levy.**

Keywords-- Goods and Service Tax, Indian Economy, Tax system in India

I. INTRODUCTION

GST Stands for Goods and Services Tax (GST). The GST Act was passed in the Lok Sabha on 29th March, 2017 and came into effect from 1st July, 2017. It was termed as One Nation One Tax.

GST was introduced as The Constitution (One Hundred and First Amendment) Act 2017 following the passage of Constitution 122nd Amendment Bill. It is an

Indirect Tax applicable throughout India which replaced multiple taxes (like Service Tax, Vat Tax) levied by Central & State Governments of India.

Before Introducing GST

Suppose say a manufacturer buys raw material from a Vendor. He needs to pay a VAT (Value Added Tax-12.5%) along with the cost of the product. The manufacturer incurs some cost to produce the product. He then adds some profit to it and sells it to Wholesaler. The Wholesaler again needs to pay tax (VAT+ Excise Duty=12.5%+12.5%=25%) on the product. The Wholesaler again adds some profit on the product before selling the product to retailer.

The Retailer again needs to pay VAT (12.5%) for this product. Then he adds some profit margin and again sells it to customers. For the same product before reaching customers hands multiple taxes are levied and the cost of the product increases significantly.

After GST Implementation

GST Law has replaced many indirect tax laws that previously existed in India. In place of VAT, Service Tax etc the Government has Come up with Central GST & State GST (12%+12%). Suppose say the manufacturer after adding his profit sells the product to the Wholesaler at Rs.140. The Wholesaler then sells the product to the retailer at Rs.154 after adding a profit of 10% margin. The retailer then again adds 10% as profit which makes the cost of the product Rs.169.5 and a 12% CGST + 12% SGST is added to this product which the cost of the product stand at Rs.210.18. So, by the implementation of GST the cost of the product can be reduced. Before GST, tax on tax was calculated and tax was paid by every purchaser including the final consumer. The taxation on tax is called the Cascading Effect of Taxes. But GST is payable at the final point of consumption, meaning that the

'taxable event' will be the 'supply of goods' and the 'supply of services'.

Taxes which GST replaced

At Central Level

- Central Excise Duty
- Additional Excise Duty
- Service Tax
- Additional Customs Duty commonly known as Countervailing Duty
- Special Additional Duty of Customs

At State Level

- Subsuming of State Value Added Tax/Sales Tax
- Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (Levied by the Centre and collected by the States),
- Octroi and Entry tax
- Purchase Tax
- Luxury Tax
- Taxes on lottery, betting and gambling

Brief history of GST (in India)

- Goods and Services Tax (GST) was first proposed 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.
- After 2004 general elections, during the Congress-led UPA government, the then Finance Minister P.Chidambaram in February 2006 continued work on the same and proposed a GST rollout by 1 April 2010.
- In 2014, the NDA government was re-elected into power and the GST Act was passed in the Lok Sabha on 29th March, 2017 and came into effect from 1st July, 2017.

The GST is governed by a GST Council and its Chairman is the Finance Minister of India. Keeping in mind the federal structure of India, there will be two components of GST – Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain.

II. RESEARCH METHODOLOGY

The research paper is based on empirical study. It is a type of descriptive research paper.

Objectives of study

To understand the concept of GST

- To evaluate the advantages and challenges of GST

- To highlight the impact of GST on Indian economy
- To explain the working mechanism of GST in India

Importance of the study

- It will remove the confusion and fear of GST from among the people
- It will help to Indian people to understand the concept the GST

Features of GST

1. It will replace multiple taxes like VAT, CST, Excise Duty, Entry Tax, Octroi, LBT, Luxury Tax ect.
2. Tax Payers with an aggregate turnover in a financial year up [Rs. 20 Lakhs & Rs. 10 Lakhs for North Eastern States and Special Category States] would be exempted from tax.
3. GST is one indirect tax for the entire nation
4. There are four types of GST namely:
 - a) UTGST – Union Territory GST, collected by the Union Territory
 - b) IGST – Integrated GST, collected by the Central Govt.
 - c) SGST – State GST, collected by the State Govt.
 - d) CGST – Central GST, collected by the Central Govt.

Various slabs of GST in India

GST slabs are pegged at 5%, 12%, 18% & 28%. The products like Milk, Curd, Lassi, Eggs, Unpacked Food Grains, Fresh Vegetables, Prasad, Salt, Khadi purchased from Khadi and Village Industries stores, Clay idols, brooms, Cotton seed oil cake, Charkha. Hotels and lodges with tariff below Rs 1,000, Educational & Health Services, Grandfathering service has been exempted under GST. Goods like petroleum, alcohol and tobacco are excluded.

III. IMPACT OF GST

Products that have become cheaper after GST

FMCG products like Bathing & Washing soaps, Hair oil, Detergent powder, Tissue papers, Napkins, Matchsticks, Kerosene, LPG domestic, Agarbatti, Toothpaste. Stationery items like pens, books, pencils School Bags, Printer, Papers. Healthcare items like Insulin, X-ray films for medical use, Diagnostic kits Glasses for corrective spectacles, Medicines for diabetes, cancer. Apparels like Silk, Woollen fabrics, Khadi yarn, Gandhi topi, Footwear below Rs 500, Apparel up to Rs 1,000.

Products that have become dearer after GST

Ghee, Cold drinks, Chocolate, Packaged chicken, Ice cream, Ayurvedic medicines, Movie tickets greater than Rs 100, AC restaurants, Electronic Home Appliances, Furniture, Cell phone bill, Insurance premiums, Bank services, credit card services, IPL tickets, AC train tickets, Business class air travels, Advertising services, Motorbikes with more than 350 cc engine, Telecom, Hotel room more than Rs 5,000, five star hotel restaurants.

EXPENSES	EXAMPLES
RESTAURANT BILLS 	<ul style="list-style-type: none"> ▶ A customer visits a restaurant & purchases a meal for ₹1,000 in Delhi ▶ Under earlier regime, VAT @ 12.5% and service tax @ 6% was charged. Thus, the customer used to pay ₹185 as tax ▶ Under GST, a meal at an air-conditioned restaurant shall attract 18%. Thus, the customer pays ₹180 as tax ▶ Effectively, no substantial impact on restaurant bills
AIR TRAVEL 	<ul style="list-style-type: none"> ▶ A customer travels in domestic economy class on a ticket of ₹1,000 ▶ Under earlier regime, service tax at 6% was levied – amounting to ₹60 ▶ Under GST, economy class is taxable at 5%. Thus, there would be minor savings in economy class ▶ In case the customer travelled business class, GST rate has increased to 12% from 9% under service tax. ▶ Thus, business class would be expensive.
HOLIDAYS 	<ul style="list-style-type: none"> ▶ A customer stays in a hotel which has tariff of ₹8,000 a night ▶ In pre-GST regime, the gross indirect tax rates (service tax + luxury tax) ranged from 19% to 25%, depending on rate of luxury tax in a state. Thus, total tax could be between ₹1,520 and ₹2,000 ▶ Under GST, for tariff above ₹7,500, tax would be applicable at 28%, resulting in tax incidence of ₹2,100. Thus, higher tier hotels are going to be more expensive under GST ▶ The lower tier hotels could be cheaper under GST, since tariffs between ₹1,000 and ₹2,500 would have GST of 12%, and between ₹2,500 and ₹7,500 would have GST of 18%
CAB EXPENSES 	<ul style="list-style-type: none"> ▶ A customer takes an Ola or Uber and the ride costs ₹100 ▶ There is a marginal saving since cab facilities would attract GST at 5% as compared to 6% service tax
BANKING AND INSURANCE	<ul style="list-style-type: none"> ▶ These services will primarily have a 3% increase in rate (from 15% service tax to 18% GST). Thus, these services will be more expensive
OTHER HOUSEHOLD EXPENSES 	<ul style="list-style-type: none"> ▶ Food items have been kept in the range of 0-5% under the GST regime. Food prices are unlikely to go up ▶ FMCG products like packaged food, shampoos, soaps, tissue papers, toothpaste, pharma products, electronic items like TV and coolers etc. to become cheaper ▶ Services like salon, dry cleaning and telecommunications to become more expensive due to 3% increase in tax rate
REAL ESTATE 	<ul style="list-style-type: none"> ▶ A customer buys under-construction property for ₹1 crore. ▶ Under earlier regime, rate of around 5.5% was levied (both VAT and service tax), but varied from state to state. Under GST, a rate of 12% will be levied resulting in inflation in initial period ▶ Prices of ready-to-move-in apartments with completion certificates would remain steady as these are out of GST ambit

GST in India vs. GST in Other Countries

The Indian GST case is structured for efficient tax collection, reduction in corruption, easy inter-state movement of goods etc. France was the first country to implement GST to reduce tax- evasion. Since then, more than 160 countries have implemented GST with some countries having Dual-GST (e.g. Brazil, Canada etc.) model. India has chosen the Canadian model of dual GST.

However, the one big difference between the Indian model of GST and similar taxes in other countries is the dual GST model. Many countries in the world have a single unified GST system; countries like Brazil and Canada have a dual GST system whereby GST is levied by both the federal and state or provincial governments. In India, a dual GST is proposed whereby a Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) will be levied on the taxable value of every transaction of supply of goods and services.

Use of IT in the implementation of GST

For the implementation of GST in the country, technology forms the backbone and the most crucial part throughout the process. The Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, nongovernment Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders. The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments.

GSP (GST Suvidha Provider) is an online compliance platform for the taxpayers under GST law. In other words, GSP are intermediary between GSTN that provide services like registration, invoice generation etc.

Offence under GST

There are 21 offences under GST.

Fake/wrong invoices

1. A taxable person supplies any goods/services without any invoice or issues a false invoice.
2. He issues any invoice or bill without supply of goods/services in violation of the provisions of GST

3. He issues invoices using the identification number of another bonafide taxable person

Fraud

1. He submits false information while registering under GST
2. He submits fake financial records/documents or files fake returns to evade tax
3. Does not provide information/gives false information during proceedings

Tax evasion

1. He collects any GST but does not submit it to the government within 3 months
2. Even if he collects any GST in contravention of provisions, he still has to deposit it to the government within 3 months. Failure to do so will be an offence under GST.
3. He obtains refund of any CGST/SGST by fraud.
4. He takes and/or utilizes input tax credit without actual receipt of goods and/or services
5. He deliberately suppresses his sales to evade tax

Supply/transport of goods

1. He transports goods without proper documents
2. Supplies/transport goods which he knows will be confiscated
3. Destroys/tampers goods which have been seized

Others

1. He has not registered under GST although he is required to by law
2. He does not deduct TDS or deducts less amount where applicable.
3. He does not collect TCS or collects less amount where applicable.
4. Being an Input Service Distributor, he takes or distributes input tax credit in violation of the rules
5. He obstructs the proper officer during his duty (for example, he hinders the officer during the audit by tax authorities)
6. He does not maintain all the books that he required to maintain by law
7. He destroys any evidence

Common Offences under GST and Their Penalties

Type of offence	Amount of penalty
Penalty for delay in filing GSTR	Late fee is Rs. 100 per day per Act. So it is 100 under CGST & 100 under SGST. Total will be Rs. 200/day. Maximum is Rs. 5,000. There is no late fee on IGST.
Penalty for not filing GSTR	Penalty 10% of tax due or Rs. 10,000 -whichever is higher
Penalty for committing a fraud	Penalty 100% of tax due or Rs. 10,000 -whichever is higher (High value fraud cases also have jail term)
Penalty for helping a	Penalty extending upto Rs. 25,000

person to commit fraud	
Penalty for opting for composition scheme even though he is not eligible	Demand & recovery provisions of sections 73 & 74 will apply. Fraud case Penalty 100% of tax due or Rs. 10,000 -whichever is higher Non-fraud case Penalty 10% of tax due or Rs. 10,000 -whichever is higher
Penalty for wrongfully charging GST rate— charging higher rate	Penalty 100% of tax due or Rs. 10,000 -whichever is higher (if the additional GST collected is not submitted with the govt)
Penalty for not issuing invoice	Penalty 100% of tax due or Rs. 10,000 -whichever is higher
Penalty for not registering under GST	Penalty 100% of tax due or Rs. 10,000 -whichever is higher
Penalty for incorrect invoicing	Penalty of Rs. 25,000

IV. ADVANTAGES OF GST

- GST is a transparent tax and also reduce number of indirect taxes.
- GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing business will be lower.
- GST is backed by the GSTN, which is a fully integrated tax platform to deal with all aspects of GST.
- Life gets simpler- GST will replace 17 indirect tax levies and compliance costs will fall.
- Revenue will get a boost- Evasion set to drop - Input tax credit will encourage suppliers to pay taxes - States and Centre will have dual oversight - The number of tax-exempt goods will decline.
- A common market-It's currently fragmented along state lines, pushing costs up 20- 30%.
- Increased efficiency in Logistics: At the state borders slow movement of trucks. In India, they travel 280 km a day as compared with 800 km in the US.
- Investment boost-For many capital goods, input tax credit is not available.
- Boost for E-Commerce Sector- Freeing up online State restrictions.
- Make in India (a) Manufacturing will get more competitive as GST addresses cascading of tax, inter-state tax, and high logistics costs and fragmented market. (b)Increased protection from imports as GST provides for appropriate countervailing duty.
- Less developed states get a lift- The current 2% inter-state levy means production is kept within a

state. Under the GST national market, this can be dispersed, creating opportunities for others.

- **Improved efficiency of logistics**

Shortcomings of GST

- Most of the dealer's don't pay central excise tax and cheat the government by simply giving the VAT. But all of those dealers would now be forced to pay GST.
- GST is a mystifying term where double tax is charged in the name of a single tax.
- For consumers, it will be a mixed bag as some goods become cheaper while others will be expensive.
- Services will become expensive e.g. Telecom, banking, airline etc.
- Increased costs due to software purchase
- Being GST-compliant
- GST will mean an increase in operational costs
- GST came into effect in the middle of the financial year
- GST is an online taxation system
- SMEs will have a higher tax burden
- Being a new tax, it will take some time for the people to understand its implications.
- It is easier said than done. There are always some complications attached. It is a consumption based tax, so in case of services the place where service is provided needs to be determined.
- If actual benefit is not passed to consumer and seller increases his profit margin, the prices of Goods can also see a rising trend.
- The introduction of GST in the country will impact real estate market. This would increase

new home buying price by 8% and reduce buyers' market by 12%.

- The short-term impact of GST is expected to be neutral-to-negative for the broader economy.
- Production processes are likely to take some time to align with the new framework as firms adjust to the input tax credit system and better manage working capital requirements.

Latest News

- A proposal is put by the opposition parties to bring petroleum products under GST.
- The government has launched an app called GST Rate Finder for calculating all the tax rates levied under the GST (Goods and Services Tax) regime. The app has been developed by the Central Board of Excise and Custom (CBEC).

Other facts

- India has chosen the Canadian model of dual GST.
- France was the first country to implement in 1954.

V. CONCLUSION

GST is at the initial stage in Indian economy. It will take some time to experience its effects on Indian economy. GST mechanism is designed in such a way that it is expected to generate good amount of revenue for both central and state government. Regarding corporate, businessmen and service providers it will be beneficial in long run. It will bring transparency in collection of indirect taxes benefiting both the Government and the people of India.

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