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THE IMPACT OF GST IN INDIAN ECONOMY AFTER IMPLEMENTATION

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1. Abstract

This paper is an analysis of what is the impact of GST (Goods and Services Tax) on Indian Tax Scenario. Here stated with a brief description of the historical scenario of Indian taxation and its tax structure. Then the need arose for the change in tax structure from traditional to GST model. GST has be detailed discuss in this paper as the background, silent features and the impact of GST in the present tax scenario in India. The Goods and Services Tax (GST) is a value added tax being implemented in India, w.e.f 1st July, 2017. GST is the only indirect tax that directly affects all sectors and sections of our economy. The goods and services tax (GST) is aimed at creating a single, unified market that will benefit both corporate and the economy. India is a centralized democratic and therefore the GST is implemented parallel by the central and state governments as CGST and SGST respectively.

1.2 Keywords:-

GST, Indirect Taxes, whole nation, Central and State governments in India, Input tax credit.

1.2.1 <u>History of GST in India</u>:-

Historical Background of GST (Goods and Service Tax). *France is the first country in the world, which has implemented GST in 1954.*Although, it was in 2000 that Vajpayee Government set up an Empowered Committee to discuss GST, the idea however, concerning its implementation was first announced by the then Union Finance Minister, Shri P. Chidambaram in the Central Budget (2007-2008). The announcement led to further detailed discussions on the report by the Empowered Committee of State Finance Ministers that was set up as a Joint Working Group on May 10, 2007. The intensive discussions and written observations within the Committee and the experts led to certain modifications. The First Discussion Paper by the Empowered Committee on Goods and Service Tax was released on November 10th, 2009.

So, what did the First Discussion Paper hold? Well, it proposed the dual GST model for the country. This model consisted of two components viz. the Central GST to be levied and collected by the Centre and the State GST to be levied and collected by the respective States.

As the GST continued qualifying stages of observations, the Joint Working Group got trifurcated into three Sub Working Groups who would work separately on drafting legislations required for GST, process/ forms to be followed in GST, regime and infrastructure development needed for smooth functioning of proposedGST India. Besides, an Empowered Group for development of IT Systems required for Goods and Service Tax regime was also set up under the chairmanship of Dr. Nandan Nilekani.

Constitutional Amendment

The Constitution provided for Centre to tax the services and goods up till the production stage and for State to tax the sale of goods. However, the Centre and the State did not have the power to levy tax on 'supply of goods and services'.

Hence, the 115th Amendment Bill was tabled before the Parliament on March 22, 2011 to give concurrent taxing powers to both the Union and the State. With the introduction of 122nd Constitution Amendment Bill,the former was replaced. It received assent from the President, Pranab Mukherjee on September 8, 2016. And now, GST has roll out from 1 July,2017.

It has taken quite a bit of time for GST to finally receive the go-ahead from the authority. And with GST implementation, it is hoped that the tax burden of the ordinary citizen will be reduced and rampant tax evasion will be curbed.

India's historic approval of the GST marked a benchmark in the development of the economy of the country but impact of GST on Indian economy may disrupt the economy for a short-term. Till now, an introduction of VAT (Value Added Tax) at the state level and CENVAT at central level are considered to be largest indirect tax reforms in the country and GST is the next logical step towards making India a unified market.

The GST is arguably one of India's most significant and ambitious reforms ever attempted. Hence, the impact of GST on Indian Economy is going to be very significant. However, determining the exact economic effect hinges on the GST Rates. Now we will discuss in detail about the impact of GST on Indian Economy.

1.2.2 Introduction of GST:-

Goods and services tax is a single tax to promote trade and industry, replacing multiple levies from the manufacturer to supplier to customer, according to the Central Board of Excise and Customs (CBEC) website. It will give a fillip to making India a manufacturing hub, creating a unified common national market, boosting investments and exports, and generating more employment, the CBEC said.

1.2.3 Meaning of GST:-

GST is one indirect tax for the whole nation, which will make India one unified common market.

1.2.4 Definition of GST:-

"GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set of benefits from the producer's / service provider's point up to the retailers level where only the final consumer should bear the tax."

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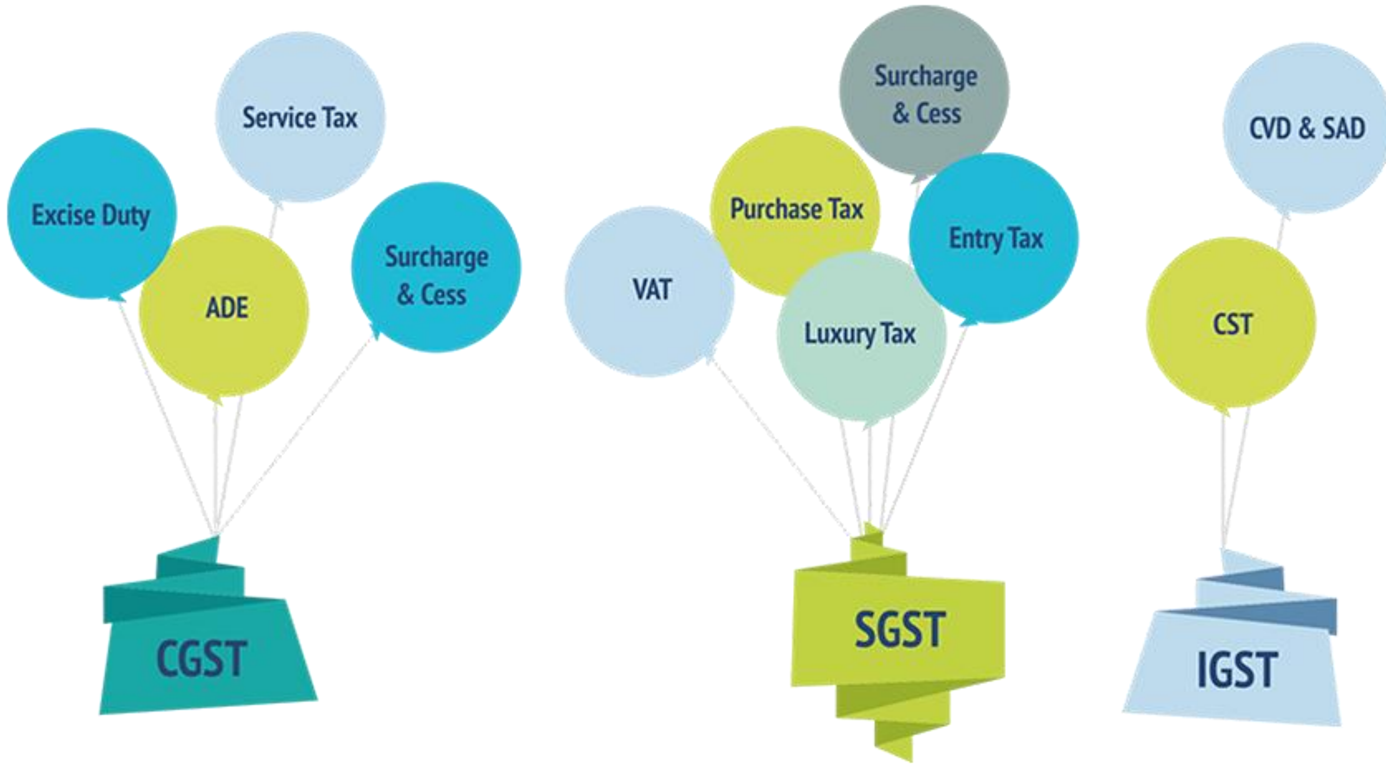
1.2.5 Objectives of GST:-

1) Ensuring availability of input credit across the value chain
2) Minimizing cascading effect of taxation
3) Simplification of tax administration and compliance
4) Harmonization of tax base, laws, and administration procedures across the country
5) Minimizing tax rate slabs to avoid classification issues
6) Prevention of unhealthy competition among states
7) Increasing the tax base and raising compliance.

1.2.6 Taxes to be subsumed in GST:-



CENTRAL TAXES TO BE SUBSUMED IN GST

Following Central Taxes should be, to begin with, subsumed under the Goods and Services Tax:

- Central Excise Duty (CENVAT)
- Additional Excise Duties
- The Excise Duty levied under the Medicinal and Toiletries Preparations (Excise Duties) Act 1955
- Service Tax
- Additional Customs Duty, commonly known as Countervailing Duty (CVD)

STATE TAXES TO BE SUBSUMED IN GST

Following State taxes and levies would be, to begin with, subsumed under GST:

- VAT / Sales tax Entertainment tax (unless it is levied by the local bodies)
- Luxury tax Taxes on lottery, betting and gambling State Cesses and Surcharges in so far as they relate to supply of goods and services
- Octroi and Entry Tax
- Purchase Tax

TAXES WHICH ARE NOT SUBSUMED

GST may not subsume the following taxes within its ambit:

- Basic Customs Duty: These are protective duties levied at the time of Import of goods into India.
- Exports Duty: This duty is imposed at the time of export of certain goods which are not available in India in abundance.
- Road & Passenger Tax: These are in the nature of fees and not in the nature of taxes on goods and services.
- Toll Tax: These are in the nature of user fees and not in the nature of taxes on goods and services.
- Property Tax
- Stamp Duty
- Electricity Duty

1.2.7 TYPES OF GST IN INDIA:-

The goods and service tax are implemented to subsume all the indirect taxes. Here we are explaining about all the related aspects of taxation and GST. There are three main components of taxation that are **CGST**, **SGST**, and **IGST**. A brief introduction for the beginners, as exactly what are all these components means and what role they play in the taxation economy of the GST.

GST bill has been passed, Goods and service tax law will comprise of CGST, SGST, and IGST. CGST and IGST will be levied by Central Government and SGST will be levied by State Government.

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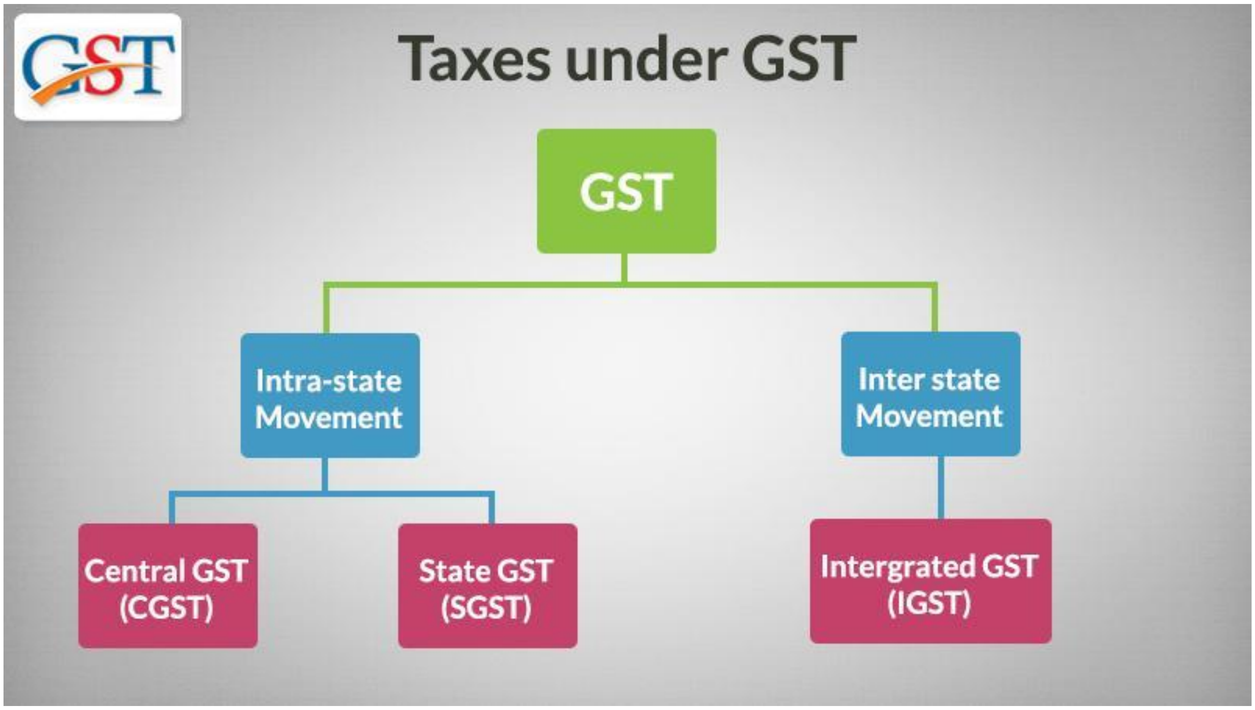

CGST

CGST means Central Goods and Service Tax. CGST is a part of goods and service tax. It is covered under Central Goods and Service Tax Act 2016. Taxes collected under Central Goods and Service tax will be the revenue for central Government. Present Central taxes like Central excise duty, Additional Excise duty, Special Excise Duty, Central Sales Tax, Service Tax etc. will be subsumed under Central Goods And Service Tax.

SGST

SGST means State Goods and Service Tax. It is covered under State Goods and service Tax Act 2016. A collection of SGST will be the revenue for State Government. After the introduction of SGST all the state taxes like Value Added Tax, Entertainment Tax , Luxury Tax , Entry Tax etc. will be merged under SGST. For example, if goods are sold or services are provided within the State then SGST will be levied on such transaction.

IGST

IGST means Integrated Goods and Service Tax. IGST falls under Integrated Goods and Service Tax Act 2016. Revenue collected from IGST will be divided between Central Government and State Government as per the rates specified by the government. IGST will be charged on transfer of goods and services from one state to another state. Import of Goods and Services will also be deemed to be covered under Inter state transactions so IGST will be levied on such transactions. For example, if Goods or services are transferred from Rajasthan to Maharashtra then the transaction will attract IGST.

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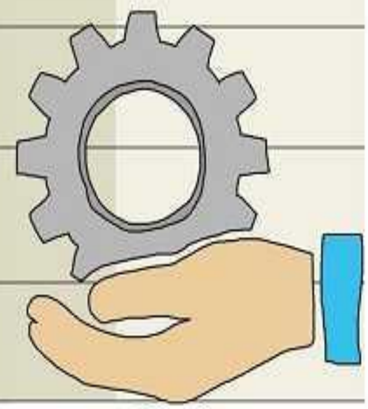
1.2.8 RATE OF GST IN INDIA:-

Services attracting different GST rates

Exempted (0%)	5%	12%	18%	28%
Education	AC rail travel	Business class air fare	Telecom	Luxury Hotels with tariff of ₹7500 and above
Health care	Economy class air travel	Non AC restaurant	Banking and other financial services	Cinema services with tickets for more than ₹100
Non-AC rail travel	Cab aggregators like Uber, Ola, etc.	Cinema service for tickets upto ₹100	Insurance	
Lawyers or lawyer's firm	Space for advertisement	Restaurants at 5-star hotels		
Insurance agents		Hotel rooms with tariff between ₹2500 and ₹7500		
Services by author, music composer etc.				



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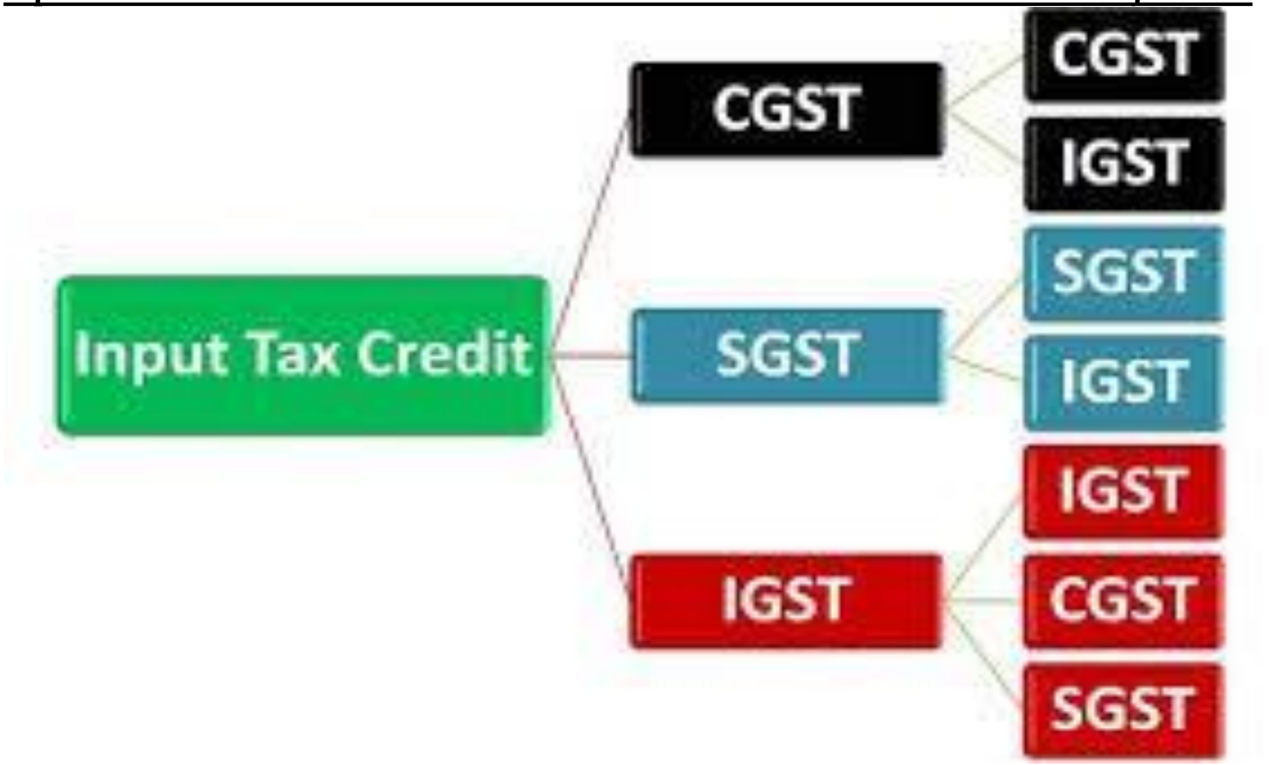
Goods attracting different GST

Exempted (0%)	5%	12%	18%	28%
Unpacked food grains	Packed and branded food grains	*Ghee*	Pasta	Cigarettes (plus cess)
Unbranded *atta* & *maida*	Sugar	Cheese	Cornflakes	Perfume
Fresh vegetables	Tea	Almonds and other nuts	Soup	Shampoo
Milk and milk food for babies	Roasted coffee	Pickles, jam & jelly	Ice cream	Air conditioner
	Skimmed milk powder	Fruit juice based drinks	Soap	Refrigerator
	Apparels priced upto ₹1000	Mobiles	Toiletries	Washing machine
			Computers	Automobile (plus cess in some cases)
			Printers	
			Pastries & cakes	

Infographics: Rajender Kumar

Input Tax Credit Adjustment



For Instance. :- Rajesh, a dealer in Maharashtra sold goods to Anand in Maharashtra worth Rs. 10,000. The GST rate is 18% comprising of CGST rate of 9% and SGST rate of 9%, in such case the dealer collects Rs. 1800 and Rs. 900 will go to the central government and Rs. 900 will go to the Maharashtra government.

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1.2.9 Procedure of GST in India:-

1. GST Registration with turnover limit-

Every business carrying out a taxable supply of goods or services and whose turnover exceeds the threshold limit of Rs. 20 lakhs (Rs 10 lakhs for North Eastern and hill states) is required to register as a normal taxable person. This process of registration is called GST registration. Businesses registered under any of the pre-GST laws: VAT, Excise/Service Tax have to register under GST by default.

2. Businesses that need to register under GST irrespective of their turnover

- Every person who is registered under the Pre-GST law (i.e., Excise, VAT, Service Tax etc.) needs to register under GST.

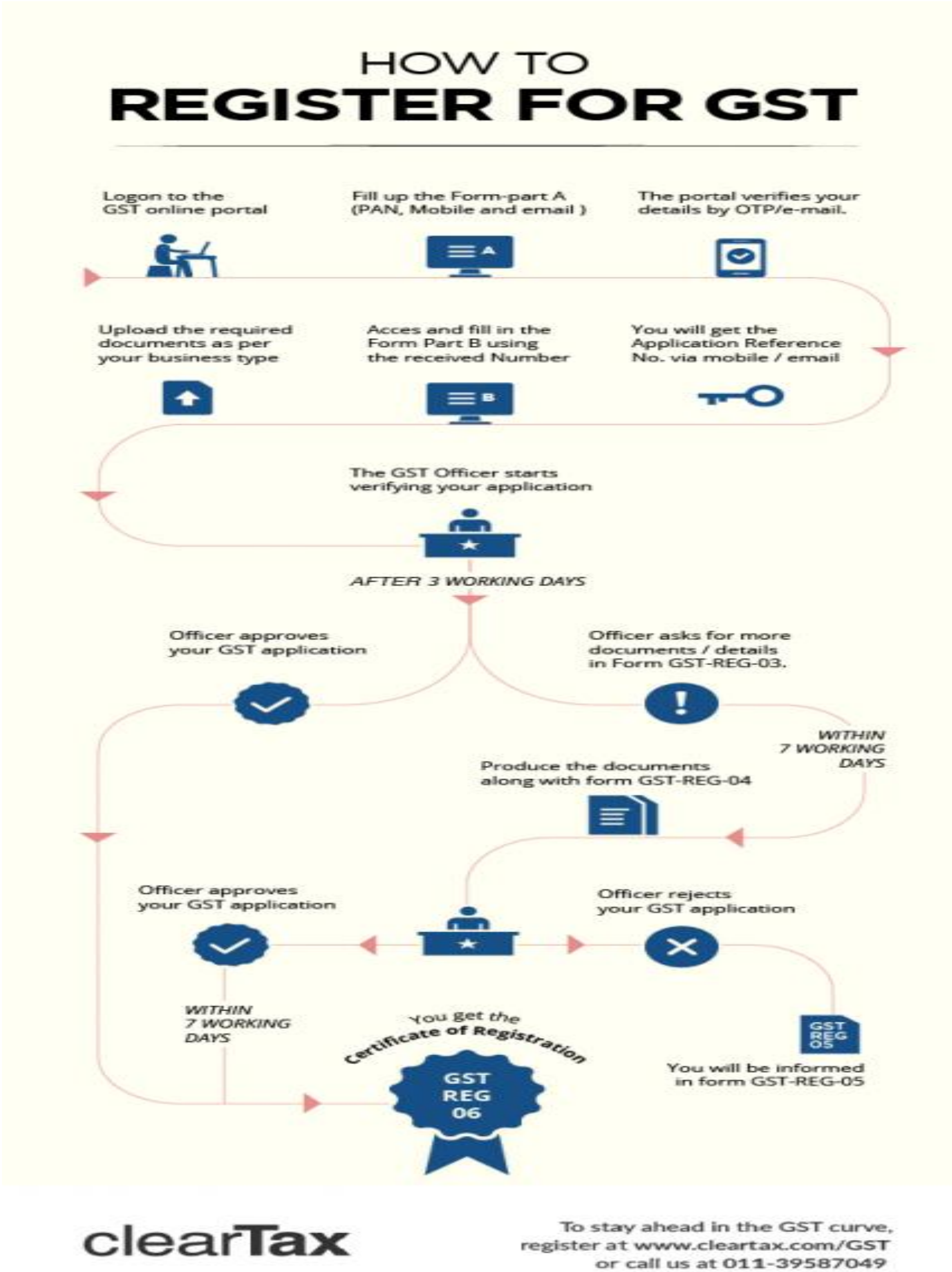
- When a business which is registered has been transferred to someone, the transferee shall take registration with effect from the date of transfer.
- Anyone who drives inter-state supply of goods
- Casual taxable person
- Non-Resident taxable person
- Agents of a supplier
- Those paying tax under the reverse charge mechanism
- Input service distributor
- E-commerce operator or aggregator
- Person who supplies via e-commerce aggregator
- Person supplying online information and database access or retrieval services from a place outside India to a person in India, other than a registered taxable person

3. Documents/details required to register under GST-

PAN is mandatory to apply for GST registration (except in case of non-resident).
The document/details required to register for GST are:

4. GST registration process-

Any business can get registered under GST by applying via the GST Online Portal or at GST Seva Kendra set up by the Government of India.


HOW TO
REGISTER FOR GST
Logon to the GST online portal
Fill up the Form-part A (PAN, Mobile and email)
The portal verifies your details by OTP/e-mail.
Upload the required documents as per your business type
Acces and fill in the Form Part B using the received Number
You will get the Application Reference No. via mobile / email
The GST Officer starts verifying your application
AFTER 3 WORKING DAYS
Officer approves your GST application
Officer asks for more documents / details in Form GST-REG-03.
WITHIN 7 WORKING DAYS
Produce the documents along with form GST-REG-04
Officer approves your GST application
Officer rejects your GST application
WITHIN 7 WORKING DAYS
You get the Certificate of Registration
GST REG 06
GST REG 05
You will be informed in form GST-REG-05
clearTax
To stay ahead in the GST curve, register at www.cleartax.com/GST or call us at 011-39587049

5. The fees applicable to register under GST-

Businesses can register for GST and obtain GSTIN **free of cost**.

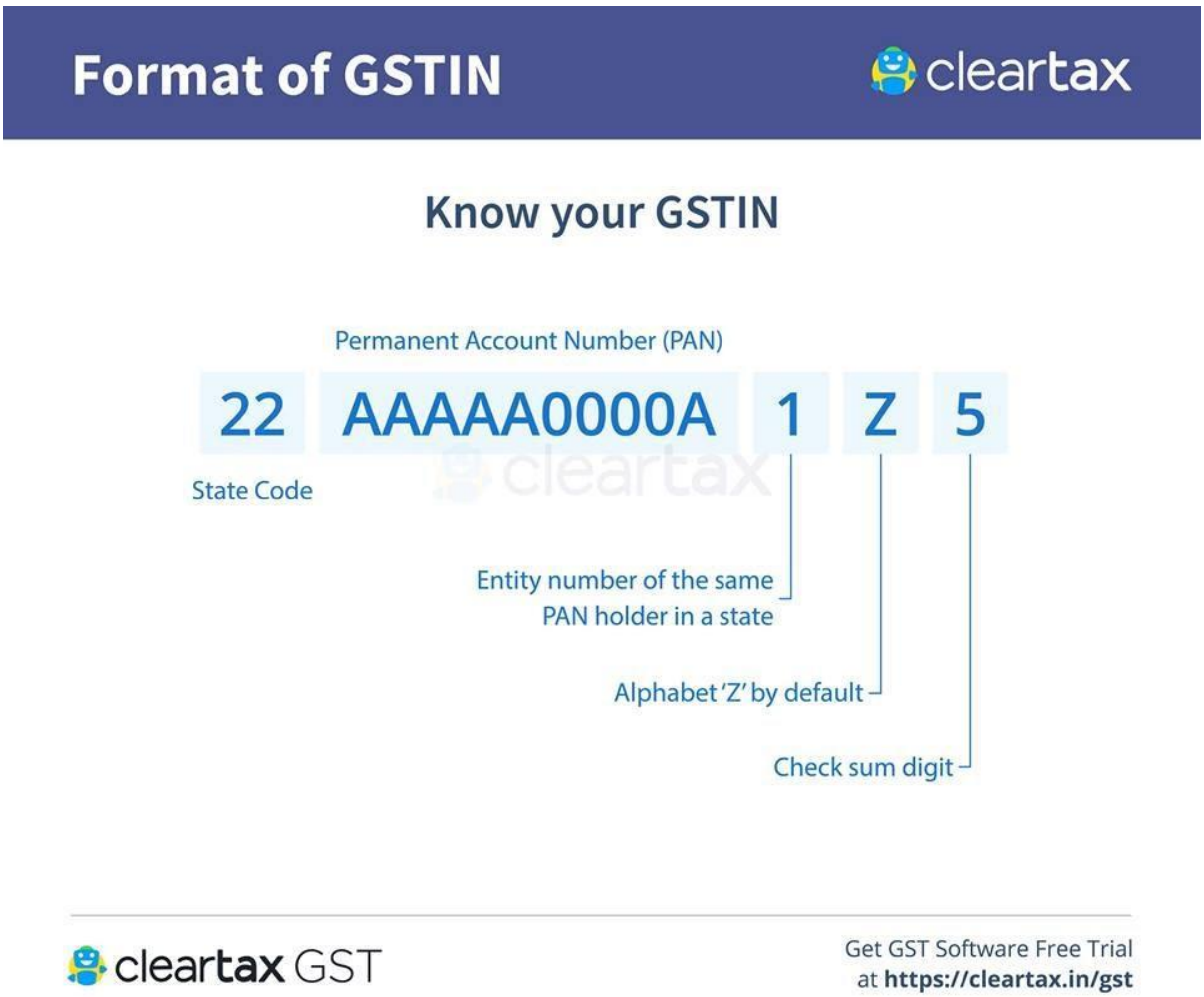
6. The penalty for not registering under GST-

An offender not paying tax or making short payments (genuine errors) has to pay a penalty of 10% of the tax amount due subject to a minimum of Rs.10,000.

The penalty will at 100% of the tax amount due when the offender has deliverately evaded paying taxes

7. GSTIN-

All businesses that successfully register under GST are assigned a unique **Goods and Services Tax Identification Number** also know as **GSTIN.**



8. Multiple GST registrations-

If a business operates from more than one state, then a separate GST registration is required for each state. For instance, If a sweet vendor sells in Karnataka and Tamil Nadu, he has to apply for separate GST registration in Karnataka and Tamil Nadu respectively.

A business with multiple business verticals in a state may obtain a separate registration for each business vertical.

9. Composition scheme a business opt for -

Small businesses having annual turnover less than Rs. 75 lakhs can opt for Composition scheme.

Composition dealers will pay nominal tax rates based on the type of business:

Composition Scheme – Applicable GST Rate			
Type of Business	**CGST**	**SGST**	**Total GST**
Manufacture	1%	1%	2%
Traders (Goods)	0.5%	0.5%	1%
Supplier of food or drinks for human consumption (without alcohol)	2.5%	2.5%	5%
Service Providers	Cannot opt for Composition Scheme		

- Composition dealers are required to file only **one** quarterly return (instead of three monthly returns filed by normal tax payers).
- They cannot issue taxable invoices, i.e., collect tax from customers and are required to pay the tax out of their own pocket.
- Businesses that have opted for Composition Scheme cannot claim any input tax credit.

Composition scheme is **not** applicable to :

1. Service providers
2. Inter-state sellers
3. E-commerce sellers
4. Supplyier of non-taxable goods
5. Manufacturer of Notified Goods

1.2.10 Advantages of GST :-

1) **Eliminating tax on tax effect**

Previously, several taxes were levied on the same product that increased the price of the product. With the passing of GST, it will eliminate the tax on tax effect by providing credit for the taxes paid.

2) **Product identification**

Under the previous regime, classification of products into different categories caused a lot of confusion and was a litigious issue. GST aims to solve this issue by bringing in Harmonized System of Nomenclature or HSN, which is an eight-digit code to identify products according to international standards.

3) **One tax**

Instead of several different taxes being levied by state and central government, GST proposes to impose only one tax. GST will replace several hidden taxes that were imposed by state governments and it will improve ease of doing business.

4) **Decrease in price of products**

GST will be charged at the manufacturing cost and collected at the point of sale, which means that the price will come down that will benefit the consumers. Once the prices come down, the consumption of consumers will increase which will benefit the companies.

5) **Easy Compliance**

All the compliances like registration, returns, payments, etc. under the GST system will have to be done online, which will make compliance under the GST system hassle-free and transparent.

1.2. 11 Disadvantages of GST:-

1) **Petroleum products:** The government has left petroleum out of GST for now until all states are agreed to it. Industries that require petroleum products for manufacturing cannot input for tax credits which will increase the final price.

2) **Multiple State registration**: Businesses are required to register for GST in each state they operate in.

3) **Professional assistance**: New startups or small businesses who lack knowledge of GST may require hiring professionals for managing their taxes

4) **Computerized GST**: Small businesses, taxpayers do not have much knowledge about online registration and filing returns. They will have to depend on professional assistance as the government has digitized the taxation system. To Initiate a payment, filing returns, submissions etc.

5) **Luxury items to get costly**: Drinking tea/coffee at branded cafes, staying in hotels with tariff above 7500rs, electronic devices like TV, washing machine, bikes with engine capacity more than 350cc, Movie tickets above 100. etc. will be costlier with GST bill.

6) Unstable economy: Right after implementation demonetization bill and now GST bill India's economy will take approximately 1-2 years to become stable.

1.2.12 Impact of GST :-

1) It is expected that GST implementation will boost Indian **GDP** by **1-2%.**
2) **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.
3) **Remove tax barriers** such as check posts and toll plazas that lead to wastage of 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.
4) A single taxation on producers would also translate into a **lower selling price** for the consumer. 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.
5) GST would **augment 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.
6) GST also removes the custom duties applicable on exports. Our **competitiveness in foreign markets** would increase on account of lower cost of transaction.
7) 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.

Detail Study on impact of GST in consideration with few examples:-

The tax rate under GST are set at 0%, 5%, 12%, 18% and 28% for various goods and services, and almost 50% of goods & services comes under 18% tax rate. Let's see how GST on some day-to-day good and services will have an impact on an end user's pocket.

1) Footwear & Apparels/Garments:

Footwear costing more than INR 500 will have a GST rate of 18% from an earlier rate of 14.41 rate but rates for the footwear below INR 500 has been reduced to 5%. So, you need to shell out more for buying a footwear above INR 500/-. And with respect to the ready-made garments, the rates have been reduced to 12% from an existing 18.16% which will make them cheaper.

2) Cab and Taxi rides:

Now, taking an Ola or an Uber will be cheaper because the tax rate has come down to 5% from an earlier 6% for a cab booking made online.

3) Airline tickets:

Under the GST, tax rate for economy class for flight tickets is set at 5% but the tax for business class tickets will have a higher tax rate of 12%.

4) **Train Fare:**

There will not be much of an impact. The effective tax rate has increased from 4.5% to 5% in GST. But, passengers who travel for business trips can claim Input Tax Credit on their rail ticket which can help them to reduce expenses. People travelling by local trains or in the sleeper class will not be affected, but first-class & AC travellers will have to pay more.

5) **Movie Tickets:**

Movies tickets costing below INR 100 will be charged a GST rate of 18% but prices above INR 100 will have a higher tax rate of 28%.

6) **Life Insurance Premium:**

The Premium Amounts on policies will rise, with an immediate impact can be seen on your term and endowment policy premiums as the rates have been increased under GST across life, health and general insurance.

7) **Mutual funds Returns:**

GST impact on your returns from mutual funds investments will largely be marginal as the GST will be charged on the TER i.e. Total Expense Ratio of a mutual fund. The TER is commonly called as expense ratio of a mutual fund company, and the same is set to go up by 3%. The return what you get as an investor will be reduced to that extent unless the respective mutual fund company i.e. AMC absorbs it but that anyhow will be a marginal difference.

8) **Jewellery:**

The gold investment will become slightly expensive because there will be 3% GST on gold & 5% on the making charges. The earlier tax rate on gold was around 2% in most of the states and the GST is increased from the existing rate to around 2% to 3%.

9) **Buying a Property:**

Under construction properties will be cheaper than read-to-move-in properties. The GST rate for an under-construction property is 18% but the effective rate on this kind of property will be around 12% due to input tax credits the builder will avail of.

10) **Education & Medical Facilities:**

Education and Medical sectors have been kept outside the GST ambit and both the primary education & healthcare is exempt from GST. It means a consumer will not pay any tax for the money you spent on these services. But due to increase in the rate of taxes for certain goods & services as procured by these organisations, they may pass on the additional tax burden to the consumers.

11) **Hotel Stay:**

For your hotel stay, If your room tariff is less than Rs 1,000, then there will be no GST, but anything above Rs 5,000 will attract 28% tax.

12) **Buying a Car:**

Most of the cars in the Indian market will become slightly cheaper, except for the hybrid cars because the GST rate will be 28% tax on all the vehicles irrespective of their make, engine capacity or model. However, over and above this 28%, an additional cess will be levied which can be either 1%, 3% or 15 %, depending on the particular car segment.

13) Mobile Bills:

People will have to pay more on mobile phone bills as GST on telecom services is now 18%, as opposed to the earlier tax rate of 15%. However, telecom companies may absorb this 3% rise due to fierce competition.

14) Restaurant Bills/EATING OUT:

Your restaurant bill would depend on whether you dined at an AC or Non-AC establishments which do not serve alcohol. Now dining at five-star hotels will be charged at 18% GST rate and the Non-AC restaurants will be charged 12% and a 5% GST will be charged from small hotels, dhabas and restaurants who do not cross an annual turnover of INR 50 Lakh.

15) IPL & other related events:

Events like IPL i.e. sporting events will have a 28% GST rate which is higher than the earlier 20%.rates. This will increase the price of your tickets. And the GST rate for other events like theatre, circus or Indian classical music shows or a folk dance performance or a drama show will be at 18% GST rate, this is lesser than the earlier tax rate.

16) DTH and cable services:

The money you pay towards your DTH (Direct-To-Home) connections or to your cable operator will reduce a bit as the rate is fixed at 18%, which is lower than the earlier taxes which were comprising of entertainment tax in the range of 10% to 30%, apart from the service tax of 15%.

17) Amusements Parks:

The ticket price for amusement parks and theme parks will increase as the earlier service tax of 15% will become 28% under the GST.

Here's is a list of some items which are completely exempt from the GST regime:

*The unprocessed cereals, rice & wheat etc.

*The unprocessed milk, vegetables (fresh), fish, meat, etc.

*Unbranded Atta, Besan or Maida.

*Kid's colouring book/drawing books.

*Sindoor/Bindis, bangles, etc.

<u>1.2.13</u> <u>Conclusion</u> :-

Goods and Services Tax will be 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. 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.

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Books:- 1) Taxmann
2) Magazines
3)Newsapaper articles
4) GST Articles
5) Latest notifications on rates