International Journal of Interdisciplinary Research in Science Society and Culture(IJIRSSC)
Vol: 3, Issue:1, (June Issue), 2017
ISSN: (P) 2395-4345, (O) 2455-2909
Impact Factor: 1.585

The Proposed GST (Goods and Services Tax) and Indian Economy

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ABSTRACT *: The GST (GOODS AND SERVICES TAX) is defined as the vast indirect tax structure which is a game changer of the Indian economy. 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 producers/service producers point up to the retailer's level where only the final consumer would bear the tax. It is really a big relief for business, as even today, because of layers of taxes and exemptions, the cost of tax compliance in India is too high. In sum, it is a much needed landmark reform. It will be interesting to see how this proposed GST will impact on the growth and development of the country.*

Keywords: *Compliance ,consumer, GST, retailer, reform.*

I. Introduction:

The Goods and services Tax (GST) is a vast concept which reflects the giant tax structure by supporting and enhancing the economic growth of the country [1]. GST is a comprehensively structured tax system which will be levied on manufacturing, sale and consumption of the goods and services at a national level. The constitution (one hundred and twenty second amendment Bill) 2014, seeks to amend the constitution of India to facilitate the introduction of Goods and services Tax (GST) in the country. The proposed amendments will confer power in both the parliament and the state legislatures to make laws for levying GST on the supply of goods and Services on the same transaction. GST is an indirect tax in where all the stages of the production will bring to uniformity in the system.

In order to bring GST into practise, there will be an amalgamation of central taxes and state taxes into a single tax payment. It would also help to enhance the ease of doing business in India both for domestic and international investors.

Under GST regime, the consumer pays the final tax, but an effective input tax credit system which ensures the consumers that there will be no cascading of

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taxes i.e. tax on tax paid on inputs that go into manufacturing of goods. Moreover, in order to avoid the current payment of multiple taxes such as excise duty and service tax at central level and sale tax/Vat at the state level, GST would unify these taxes and create a uniform single tax market throughout the country. The present tax system generally taxes on production whereas the GST will aim to tax on final consumption.

II. Objectives of the Study:

The main objectives of the study are –

- To outline the structure of the proposed GST in India.
- To examine the possible impact of GST in Indian economy.

III.Methodology:

The study is completely based on secondary sources. The study of the proposed GST is the result of journals, magazines, books and internet sources.

IV. Result and Discussion:

STRUCTURE OF THE PROPOSED GST:

1. Dual GST: Both centre and states will simultaneously levy GST across the value chain. Centre will levy as well as collect Central Goods and Services Tax (CGST) and states would levy and collect state Goods and Services Tax (SGST) on all transactions within a state. The input tax credit of CGST will be available for paying the CGST liability on the output at each stage. Similarly the credit of SGST paid on inputs would be allowed for paying the SGST on output.

2. Inter State transaction and the IGST mechanism: The Integrated Goods and Services Tax (IGST) have been designed to ensure seamless flow of input tax credit from one state to another. The centre will levy and collect the IGST on all inter-state supply of goods and services.

3. Central taxes to be subsumed:

A. central excise duty
B. Additional excise duty
C. The excise duty levied under the medicinal and Toiletries preparation
D. service tax
E. Additional custom duty commonly known as countervailing duty (CD)
F. Special additional duty of custom-4% (SAD)
G. Cesses and surcharges in so far as they relate to supply of goods and services.

4. State taxes to be subsumed:
   A. Vat/sale tax
   B. Central sale tax (levied by the centre and collected by the respective state)
   C. Entertainment tax
   D. Octroi and entry tax
   E. Purchase tax
   F. Luxury tax
   G. Taxes on lottery, betting and gambling.
   H. State cesses and surcharges in so far as they relate to supply of goods and services.

5. Destination-based consumption tax: GST will be a destination based tax. This implies that all SGST collected will ordinarily accrue to the state where the consumer of the goods or services sold resides.

6. All goods and services, except alcoholic liquor for human consumption, will be brought under the purview of GST. Petroleum and petroleum products have been constitutionally included as goods under GST. However, it has also been provided that petroleum and petroleum products shall not be subject to the levy of GST until and unless without consensus in GST council meeting. Furthermore, taxes on tobacco and tobacco products imposed by the centre shall continue to be levied over and above GST.

THE REASON BEHIND MOVING TOWARDS GST:

1. Presently, the constitution empower both the central govt and the state govt to levy excise duty on manufacturing and service tax on the supply of

services by the centre and the state govt to levy sale tax or vat on the sale of goods. So, these types of indirect tax system creates multistage of taxes and complicated the tax administrative system.

2. In addition, the central sales tax (CST) is levied by the central govt but collected and retained by the exporting state.

3. This multiplicity of taxes at the central and the state has resulted in a complex indirect tax structure that is ridden with hidden costs for the trade and industry. In the present system, there is no uniformity of taxes and structure across states. So excise duty and services tax paid at the stages of manufacture, no credit is available to the traders while the same case also occurred in the state level of sale tax or vat. Moreover due to cascading of taxes i.e. tax on tax, the prices of the goods and services get artificially inflated.

4. GST will simplify and harmonise the indirect tax regime in the country. It is expected to reduce the cost of production and inflation in the economy. Further, GST will broaden the tax base and result in better tax compliance due to a robust IT infrastructure.

DISCUSSION:

THE POSSIBLE IMPACT OF THE PROPOSED GST ON THE INDIAN ECONOMY

1. REAL ESTATE SECTOR: In India, the real estate sector has strong multiplier effects through backward and forward leakages. After agriculture, the construction sector is the second largest employment generator medium for the country which accounts for a significant proportion of the GDP. Under the current law in force, there are different types of taxes involved in real estate sector, starting from the construction of property to sale of the same to the end consumers. These taxes are service tax, vat, stamp duty, building cess on construction etc. Moreover there are various other taxes which are embedded in the cost of procurements such as excise duty, CST etc. Due to cascading of taxes, higher tax cost burdens on house purchasers. But the proposed GST is likely to result in transparency in the real estate sector,

which will significantly reduce tax evasion through more efficient transaction tracking methods and improved enforcement and compliance.

2. HEALTH CARE SECTOR: The proposed and recently passed GST Bill has generated a lot of curiosity in the economy. While the manufacturers are quite optimistic about the new tax law regime, but common man are not sure of how it is going to impact on their lives. GST relies upon the positive effect on the pharmaceutical part. It will help the business by streamlining the tax structure since eight different taxes are exacted in the pharmaceutical industry right now. A solidification of all these into one tax would ease working together, as well as mitigates the falling effects of numerous taxes connected on one item.

3. TELECOMMUNICATION SECTOR: The proposed GST regime appears to be unfavourable for the telecommunication sector as well. The dual framework of GST regime could be the direct spike in the service tax rate from 14% to 18-20%. The proposed GST appears to be silent on whether the telecommunication can be considered under the category of goods and services. Being a regressive taxation system, the burn of increased tax rates will directly be faced by the end consumer unless the credit is passed on to the next in business chain.

4. BANKING AND FINANCIAL SECTOR: The proposed GST will hamper the banking, financial services (i.e. securities, broking) and insurance industries which have both B2B and B2C operations due to the nature of their operations. The banking and financial services industry has historically paid service tax on its fee income; interest income was service tax free while fund based income were outside the ambit of service tax regulations. The proposed GST law however would require businesses to redefine this approach. Moreover buying and selling of securities is currently outside the indirect tax net but according to the proposed GST Law securities are regarded as a goods and securities in dematerialised form may be treated as a service. As a result, fund based activities such as derivatives trading may fall within GST

purview. Furthermore, as GST is a destination based tax, it might be a challenge to GST on B2B and B2C transactions.

5. IMPACT ON COMMON MAN: Although the GST reaches its final stage, there is confusion among the common people about its impact on them. In spite of the govt claims that GST will increase GDP by 2 percent, services are bound to be more expensive. So, we can say that it is a mixed bag for consumers. Today consumer has no idea the extent of taxes they pay on goods. For instance , if we get a bill after buying merchandise which gives the extent of VAT we have paid on it but it is an understatement of the actual tax we have paid because before merchandise reached the retail outlet, the central govt has collected excise duty, but the extent of excise duty is not mentioned in the bill. Therefore, it is reasonable to assume we pay well over 20% tax for most merchandise we buy.

In GST, consumers will benefits in two ways. Firstly, all taxes will be collected at the point of consumption. Suppose if any merchandise is taxed at 18% it will include both central taxes and state govt taxes. So this will bring transparency in taxation system and will increase tax revenue.

Secondly, once barrier between states are removed, we as consumers will not face cascading of taxes i.e. tax on tax which appears goods moving across state borders.

Under GST regime, the e- commerce industry will become more expensive, as the e-commerce industry comes into a tax net and will have to pay tax deducted at source for every purchase from its sellers. So profit margins of e-commerce companies will be shrinking and increase tax compliance net could slash discounts and freebies that they offer.

V.Conclusion:

The proposed GST regime is a half hearted attempt to rationalise multiple indirect tax structure. The real success of the GST lies on the impact on the common Indian consumer. The essence of GST is that all goods and services be taxed at moderate rate. “One Nation, one Tax”, proves to be a game changer in a positive way. And no doubt, GST will simplify existing indirect tax system which will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate and inclusion of petroleum products, electricity, liquor etc. We hope GST leaves a positive impact and helps to boost up Indian economy and a rising Indian economy will help in the financial growth of the common man.

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