



## **Impact of GST on India**

**Rimpy Rana**

M.A. Economics, Panjab University, Chandigarh, India

### **Abstract**

Before GST, there were many indirect taxes like VAT, service tax etc. The cost of a product was varying according to taxation slab of the particular state. Some retailers were selling their products at high rates. These things were harming the economy. To avoid this, the introduction of GST was done by Indian government.

It is observed that after the implementation of GST, the economy of nation has increased as all the indirect taxes have been removed and direct tax is coming under government. The cost of manufacturing has also reduced due to lesser complexity in taxes. The circulation of black money has also controlled due to GST. The current paper highlights the impact of GST on Indian economy.

**Keywords:** GST, Economy, Tax

### **1. Introduction**

With the introduction of GST, the level of supply and demand has also raised. The revenue of government has also increased by extending the tax base. For the implementation of GST, all the products are categorized into different slabs depending on their manufacturing cost. These tax slabs differ from 5 to 28%.

All the daily need products fall in the tax slab of 5 and 12% whereas all the luxury items are kept in 28% tax slab. It is observed that before GST, various daily need products were applied different type of tax causing high rates. But, after the GST, the cost of products has reduced due to simple taxation procedure.

The major impact of GST on Indian economy is that the government has succeeded in controlling blackmailing in retail sector as the cost of every product is fixed and payment of GST is done online.

GST has also become a good source for the income of government. It is observed that in 2017-18, GST produced the revenue of 32.8 percent which is almost one-third of the total revenues for the government. On the other hand, the share of corporate taxes in revenue was found to be 27.3 percent. Whereas, personal income tax contributed 23.3 percent in the total revenue.

GST the biggest tax reform in India founded on the notion of "one nation, one market, one tax" is finally here. The moment that the Indian government was waiting for a decade has finally arrived. The single biggest indirect tax regime has kicked into force, dismantling all the inter-state barriers with respect to trade. The GST rollout, with a single stroke, has converted India into a unified market of 1.3 billion citizens. Fundamentally, the \$2.4-trillion economy is attempting to transform itself by doing away with the internal tariff barriers and subsuming central, state and local taxes into a unified GST.

The rollout has renewed the hope of India's fiscal reform

program regaining momentum and widening the economy. Then again, there are fears of disruption, embedded in what's perceived as a rushed transition which may not assist the interests of the country.

From the viewpoint of the consumer, they would now have pay more tax for most of the goods and services they consume. The majority of everyday consumables now draw the same or a slightly higher rate of tax. Furthermore, the GST implementation has a cost of compliance attached to it. It seems that this cost of compliance will be prohibitive and high for the small scale manufacturers and traders, who have also protested against the same. They may end up pricing their goods at higher rates.

Talking about the long-term benefits, it is expected that GST would not just mean a lower rate of taxes, but also minimum tax slabs. Countries where the Goods and Service Tax has helped in reforming the economy, apply only 2 or 3 rates – one being the mean rate, a lower rate for essential commodities, and a higher tax rate for the luxurious commodities.

### **Discussion**

Currently, in India, we have 5 slabs, with as many as 3 rates – an integrated rate, a central rate, and a state rate. In addition to these, cess is also levied. The fear of losing out on revenue has kept the government from gambling on fewer or lower rates. This is very unlikely to see a shift anytime soon; though the government has said that rates may be revisited once the RNR (revenue neutral rate) is reached.

The impact of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while FDI (Foreign Direct Investment)

would also increase.

The industry leaders believe that the country would climb several ladders in the ease of doing business with the implementation of the most important tax reform ever in the history of the country.

Amidst economic crisis across the globe, India has posed a beacon of hope with ambitious growth targets, supported by a bunch of strategic undertakings such as the Make in India and Digital India campaigns.

The Goods and Services Tax (GST) is another such undertaking that is expected to provide the much needed stimulant for economic growth in India by transforming the existing base of indirect taxation towards the free flow of goods and services.

GST is also expected to eliminate the cascading effect of taxes. India is projected to play an important role in the world economy in the years to come. The expectation of GST being introduced is high not only within the country, but also within neighboring countries and developed economies of the world.

For the uninitiated, GST is an acronym for Goods and Services Tax. It is a tax reform introduced in July 2017. It is an indirect tax that applies to the entirety of India, replacing several cascading taxes imposed by India's central and state governments. Introduced as The Constitution (One Hundred and First Amendment) Act of 2017, GST provides a simpler way for taxing goods and services.

With GST implemented, goods and services throughout India are taxed at a homogeneous scheme using the following rates: 0%, 5%, 12%, 18%, and 28%. There are special rates, though, imposed on specific products: 3% for gold and 0.25% for rough precious and semi-precious stones. Additionally, a cess of 22% on top of the 0% to 28% rate is levied on certain products such as tobacco, luxury cars, and carbonated drinks.

When it comes to consumer goods and services, the main concerns are food and the services sector. For these, the GST brings good and not so good news. The good news is that food products are charged 0%. The not so good news is that services in general are seeing an increase of 18% from 15%.

On the other hand, the implementation of GST increases the tax on footwear and garments priced at INR 500 from the previous 14.41% to 18% but those priced lower than INR 500 are taxed lower at 5%. For ready-made garments, the rates are lowered to 12% from 18.16%. Mobile services rates are slightly increased, though, because of the new 18% rate, from 15% before.

### Significance of the Study

When it comes to direct-to-home and cable services, the new fixed rate of 18% can be considered a general reduction as compared to the previous 10%-30% range and the additional service tax of 15%.

Indians who buy insurance policies, unfortunately, are seeing increases in their premiums with the implementation of GST as the tax rates have been raised for general, health, and life insurance. On the other hand, the tax rate change on mutual fund returns under GST is mostly minimal. This is because the GST is charged on the mutual fund's Total Expense Ratio (TER). The rate is only 3% so the effect is going to be marginal.

Since they belong to the service industry, banking services

and the services provided by other financial service companies are subject to the 18% rate, which is higher than the previous 15%. Debit cards, fund transfers, ATM withdrawals, cheque book or draft issuance, bills collections, charges on cash handling, and more are affected. Even money sending services are affected.

Companies that provide money transfer services, nevertheless, are expected to try to be competitive so it's worth observing how they change their rates. It's advisable to observe these changes on sites like Moneytransfercomparison.com to find out which ones are trying to be competitive and which ones are taking advantage of GST to justify higher than expected rate increases.

It's difficult and too early to evaluate whether or not GST has positively affected economic activity. The Indian government, however, believes that they are on the right track with GST. At least one Indian business executive shares this optimistic view of GST.

### Conclusion

In a report by The Indian Express, ICICI Bank CEO Chanda Kochhar was quoted to have said that GST is a transformational structural reform which has multiple benefits. These benefits include the establishment of a national market, improved ease of doing business in India, better productivity and efficiency, and improved compliance among taxpayers.

The GST reform package is ambitious and is undoubtedly a major move for the \$2 Trillion Indian economy. Its main selling point for the Indian economy is its supposed advantage of making it easier for businesses to do business. It provides a simplified taxation scheme for goods and services, something businessmen will appreciate. It's far from perfect, though, and it's definitely worth paying attention to non-political criticisms, especially in relation to how it affects poorer Indians.

GST's impact on the Indian economy can go either way: good or not so good. Fortunately, there aren't that many analysts who express damningly averse views on the matter. With honest and efficient administration, GST may be a good move for the world's third largest economy.

### References

1. Benedict K. The Australian GST regime and financial services: How did we get here and where are we going? *E Journal of Tax Research*, 2011; 9(2):174-193.
2. Bikas E, Andrukaite E. Factors affecting Value Added Tax revenue, *European Scientific Journal*, 2013; 1:41-49.
3. Borec T, Merz M, Salanki A. World Wide VAT Forum: E Commerce, *Tax Planning International – Indirect Taxes*, 2013; 5:13-15.
4. Bovenberg A. Indirect taxation in developing countries, *International Monetary Fund – Staff Papers*, 1992; 1:333-373.
5. Brew L, Wiah EN. As assessment of the efficiency in the collection of Value Added Tax Revenue in Tarkwa-Nsuaem Municipality (Ghana) using Time Series Model, *British Journal of Arts and Social Sciences*. 2012; 6(2):140-150.
6. Fathi B, Esmaeilian M. Evaluation of Value Added Tax and Tax Evasion, *Current Research Journal of Economic*

- Theory. 2012; 4(1):1-5.
7. Firth M, Mckenzie K. The GST and financial services: pausing for perspective, The School of Public Policy – SPP research Papers, 2012; 5(29):1-41.
  8. Grigore M, Gurau M. EU Comparison of VAT, Lex ET Scientia, 2012; 19(1):170-180.
  9. Halakhandi S. Goods and Service Tax – An introductory study, The Chartered Accountant, 2007, 1595-1601
  10. Herekar PM. Evaluation of Impact of Goods and Service Tax, Indian Streams Research Journal. 2012; 2(1):1-4.