

Goods and service tax (gst) in indian economy- an overview

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Abstract: The Indian economic system is well structured and insulated to withstand the ups and downs in the economic cycle. This helped the Indian economy to survive during the recent economic crisis around the world. Even the globally accepted economic giants were also affected adversely during the crisis. The recently implemented Goods and Service Tax- GST system is expected to be another milestone in the Indian economy. The border idea behind GST is ‘One nation One tax system’. The fundamental intention behind GST is to avoid compound taxation system and to administer uniformity in the scattered tax system of the country. The implementation of GST will reduce the tax burden of manufacturers in different sectors which in turn will enhance the units of production. This process will improve the total exports and the benefits of the same will be reflected in total GNP. The avoidance of cascading effect in taxation will reduce the tax burden in different players in supply chain and a portion of the benefit is expected to be enjoyed by the end customer. This paper intends to reveal the impacts of GST in different sectors of Indian economy.

Key Words: GST, Cascading Effect, Indian Economy, Tax system.

Introduction

The Tax system serves as the back bone of economy of different nations around the world. A well structured tax system can ensure the participation of all nationals of a country in its economic development. The taxation decisions in India are taken by Central and State Governments. For imposing taxes laws must be passed as per the Constitution of India. Indian tax system is basically classified into Direct tax system and Indirect tax system. The distinction between these two is based on the fact that whether or not the burden on tax can be shifted wholly or partially to others. Direct taxes are those taxes in which the burden cannot be transferred to another person. Here the relationship between the tax payer and the levying authority is direct. Central Board of Direct taxes (CBDT), a part of Department of Revenue is the administrative body for Direct taxes. Income tax, Capital gains tax, Wealth tax etc. are examples of Direct tax. Indirect taxes are those whose burden can be transferred partially or fully to others. Here the tax payer alone is not bearing the burden instead it is transferred to others. Sales tax, Service tax, VAT, Stamp duty, Excise duty etc. are examples of Indirect tax.

Introduction to GST

The tax system prevailed in India was one among the complicated tax systems around the world. The cascading effect of indirect taxes and non uniformities in tax collection in different states were considered to be the major drawbacks of the previous tax system. This prompted the Government to focus on the slogan ‘One Country One Tax System’ which is the predominant fact behind GST. Introduction of GST helped in compensating the major drawbacks of the prevailed tax system. Following are the important features of GST.

- Removal of Cascading effect- GST removes Tax on Tax effect.
- Provides Common National Market for Goods and services.
- Single Umbrella Tax Rate
- Harmonizes the indirect taxes imposes the Central and State Governments.

In India the first reference regarding GST was made by P. Chidambaram former Union Finance minister during Budget presentation 2006-07. The bill was introduced on December 19, 2014 passed in Lok Sabha on May 6, 2015, and in Rajya sabha on August 3, 2016. The Government implemented GST with effect from 1st July 2017.

Sector Wise impacts of GST

Fast Moving Consumer Goods-FMCG

This sector enjoys great advantage of GST as the Government decided to keep tax rates for mass conception items low. While milk, grain and cereals are exempted from GST other products like sugar, coffee, tea, edible oil etc will be charged only at 5% GST. This will benefit players like Nestle. While mass moving items like tooth paste, hair oils, soaps etc. are charged at 18% personal care items will be charged at a peak rate of 28%. This will benefit companies like Dabur, Colgate, HUL etc. Overall it is observed that the food part of FMCG is benefited more.

Automobiles

Before GST tax rates vary between 26.5% & 44% for automobiles. Under GST the rates are slashed to 18-28%. This will reduce the tax burden of end consumer. A detailed inspection of the rates shows that low and medium class cars are enjoying more GST benefits. In the case of bikes motor cycles less than 350 cc is expected to enjoy more benefits. As a whole low and medium class customers are expected to benefit better.

Consumer Durables

GST council has put items like refrigerators, air conditioners at a peak rate of 28%. The intense competition of the sector will be a grace for the customers as the companies are expected to pass only a marginal increment to the customers. Also GST will bring more companies under organized ambit which will reduce the unfair competition.

Cement and Metal

After GST cement rates expected to rise slightly, but the reduction of rates for coal and metal by 5% will be advantageous. Steel and metal companies depend largely on coal will benefit out of GST. For cement companies this will offset impact of GST. For end customers the benefits will be mainly due to the removal of compound taxation.

Health Care and Education

In this sector much change are not effected. The council has also clarified that no additions are made to the exemption list.

Telecom and Financial Services

The tax rates increased by 3% and made it 18%. For a developing country like India where telecom and banking services are becoming essential this hike in rate may not benefit.

IT and ITes

IT and ITes industry were paying 14% tax now subject to 18-20% after imposition of GST. A promising factor noticed in the sector is that the long disputed issue of canned software taxation will come to an end as there won't be any differentiation between goods and services.

Hospitality Sector

Luxury segment of this sector will be badly affected by the hikes after GST implementation. In country like India which earns considerable income from tourism sector the hike in rate may result in an offset.

The Prospects of GST

- GST is expected to reduce the tax burden of the end customer, which will reduce the prices of the commodities. This will boost the consumption and enhance production.

- Union Government will levy GST on interstate trade and tax will be appropriated between Center and State as described by parliament by law.
- The problem of different tax rates in different states is eliminated and confusion of dealers will reduce.
- There will be one CGST and SGST across different states of the country.
- Tax cascading will not happen as tax for tax is eliminated.
- Tax compliance will be easier as there is a unified law.
- Ensures more transparency as GST is levied at final destination of consumption.
- Single taxation could eliminate tax collection at check posts, this will save time and road blocks at check posts.
- As tax base is widened Government revenue will increase.

Conclusion

The GST system implemented in the country will definitely help the progress of our nation towards a developed country as the revenue generation of the Government will improve. GST helped in widening tax base of the Government and more companies are now under the organized ambit. If things are happening as expected GST implementation will increase the consumption of products, which will enhance the production and thereby boosting economic progress of the nation. A reduction in tax burden of manufacturers will result in increased production and exports and the results of the same will be reflected in GNP contribution. A uniform tax structure for the nation was the concept behind GST and the implemented GST system will eliminate tax cascading and will reduce the tax burden of customers.

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