

Impact of Goods and Services Tax on Indian Economy

Aditi Pandya

Student, Indira School of Business Studies PGDM Pune

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INTRODUCTION

To run a nation judiciously, the government needs to collect tax from the eligible citizens; paying taxes to the local government is an integral part of everyone's life, no matter where we live in the world. A tax is a mandatory fee or financial charge levied by any government on an individual or an organization to collect revenue for public works providing the best facilities and infrastructure. The collected fund is then used to fund different public expenditure programs. If one fails to pay the taxes or refuse to contribute towards it will invite serious implications under the pre-defined law. Now, taxes can be collected in any form such as state taxes, central government taxes, direct taxes, indirect taxes, and much more. For your ease, let's divided the types of taxation in India into two categories, viz. direct taxes and indirect taxes. This segregation is based on how the tax is being paid to the government. The Objective of the article is to find implications of Goods and Service Tax (GST) on IT sector of India, whether it will act as a boon or bane for sector.

Goods and Services Tax (GST) is an indirect taxation in India merging most of the existing indirect taxes into single system of taxation. It was introduced as The Constitution (One Hundred and

First Amendment) Act 2016, following the passage of Constitution 122nd Amendment Bill. The GST is governed by GST Council and its Chairman is Union Finance Minister of India, Mr. Arun Jaitley. Under the GST scheme, a person who was liable to pay tax on his output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs. Introduction of GST would also make Indian products competitive in the domestic and international markets. Studies show that this would have a boosting impact on economic growth. Last but not the least, this tax, because of its transparent and self-policing character, would be easier to administer.

KEY OBJECTIVES OF GST

- To eliminate Indirect Tax issues
- To remove Cascading Tax effects
- To increase the number of taxpayers
- To entertain Consumption-based Tax administration instead of Manufacturing
- To bring out a buoyancy in Govt. Revenue
- To diminish Tax evasion and Corruption



IMPORTANCE OF GST

A basis pre-requisite for introduction of GST meaningfully is that both the Centre and the State should **replace existing taxes like Excise, State Sales Tax/ VAT, CST, Entry Tax** and all other cascading-type Central/ State levies on goods and services. Any losses on account of abolition of multiple taxes are likely to be balanced by the additional GST revenues that will obtain from taxation of services and from access to GST on imports. Moreover, India would obtain full efficiencies of a single national VAT, while retaining a federal structure. This would also be the logical conclusion of the efforts that have been made in the country during last 2 decades in moving towards VAT.

1. **First**, the failure to tax all goods and services distorts consumption decisions; it weakens the signalling power of relative prices. GST reduces these distortions and enables all

economic agents to respond more effectively to price signals.

2. **Second**, the unrefunded taxation of capital goods discourages savings and investment and retards productivity growth. This is perhaps the most important gain through introduction of GST in an emerging economy like India.
3. **Third**, for a given constellation of exchange rates and price levels, violation of the destination principle places local producers at a competitive disadvantage, relative to producers in other jurisdictions.
4. **Fourth**, differences in tax bases of different States and the Central government greatly increase costs of doing business. The GST based tax reform provides a real policy opportunity to do something about this problem without waiting for prior and sweeping political economy changes.



STRUCTURE OF GST

The **GST tax structure** will comprise of the Central Goods and Services Tax (CGST), State Goods and Services Tax (SGST) and Integrated

Goods and Service Tax (IGST). The four slab tiers of the **GST tax structure** will be 5 per cent, 12 per cent, 18 per cent and 28 per cent.

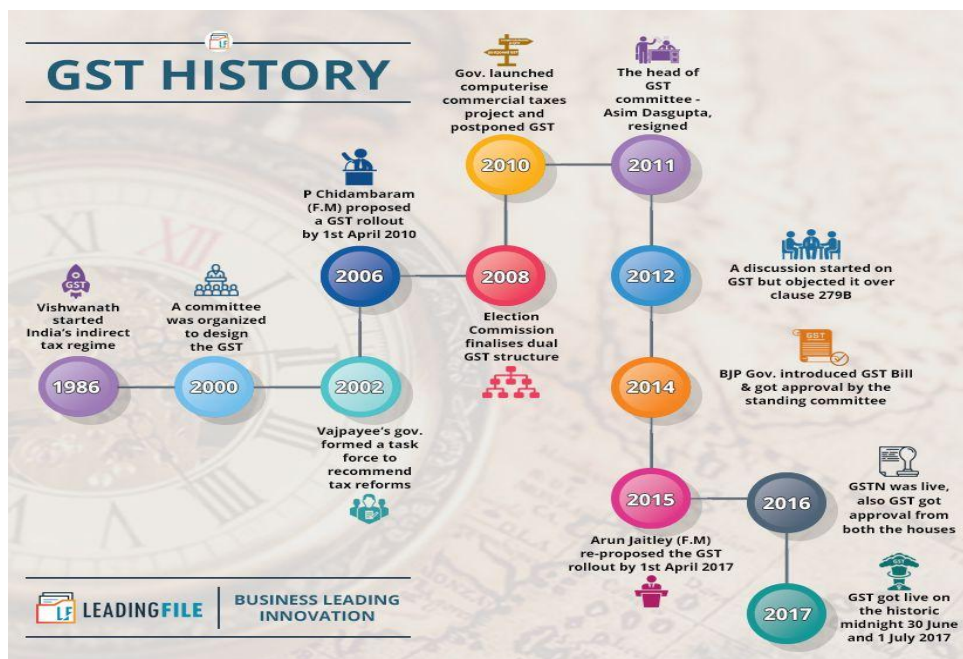


HISTORY OF GST

The implementation of the Goods and Services Tax (GST) in India was a historical move, as it marked a significant indirect tax reform in the country. The amalgamation of many taxes (levied at a central and state level) into a single tax is expected to have big advantages. One of the most important benefit of the move is the mitigation of double taxation or the elimination of the cascading effect of taxation. The initiative is now paving the way for a common national market. Indian goods are also expected to be more competitive in

international and domestic markets post GST implementation.

From the viewpoint of the consumer, there would be a marked reduction in the overall tax burden that is currently in the range of 25% to 30%. The GST, due to its self-policing and transparent nature, is also easier to administer on an overall scale. The history of the Goods and Services Tax (GST) in India dates to the year 2000 and culminates in 2017 with four bills relating to it becoming an Act. The GST Act aims to streamline taxes for goods and services across India.



TAX RATE AND SLABS IN INDIA

5% Tax Slab

The GST tax begins with the 5% tax slab. The items included in this slab are skimmed milk powder, coffee, tea, sugar, fish fillets, coal, fertilizers, ayurvedic medicine, insulin, cashew nuts, etc.

12% GST Slab

The items included in the 12% slab are butter, ghee processes food, mobile, fruit juice, almonds, packed coconut water, umbrella, food served at non- ac restaurant., etc.

18% GST Slab

The items which are included in the 18% slab are, flavoured refined sugar, pasta, cornflakes pastries, cakes, detergents, mirror, glassware, marble & granite, paints, vacuum cleaners, sanitaryware, leather clothing, hotels, which charge tariffs in excess of Rs. 7500, movie tickets costing above Rs.100.

28% GST Slab

The highest GST rate in India is the 28% GST slab. It is reserved for sin goods and luxury items like pan masala, dishwasher, weighing machine, paint, cement, sunscreen, AC, fridge, washing machine, automobiles, motorcycle. The 28% GST rate also applies to 5-star hotels, where the actual billing amount of the hotel stay is above Rs. 7500 per night, movie tickets, betting in casinos, and racing.

IMPACT OF GST ON INDIAN ECONOMY

- **Simplification of the tax structure:** Reduces tax burden on producers and fosters growth through more production. The current taxation structure, pumped with myriad tax clauses, prevents manufacturers from producing to their optimum capacity and retards growth. GST will take care of this problem by providing tax credit to the manufacturers.

- **Enhanced pan India operations:** Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to the higher needs of buffer stock and warehousing costs. A single taxation system will eliminate this roadblock.
- **Transparency in GST system:** There will be more transparency in the system as the customers will know exactly how much taxes they are being charged and on what base.
- **Increased revenues:** GST will add to government revenues by extending the tax base.
- **Fostering production:** GST will provide credit for the taxes paid by producers in the goods or services chain. This is expected to encourage producers to buy raw material from different registered dealers and is hoped to bring in more vendors and suppliers under taxation purview.
- **Increase in Exports:** GST will remove the custom duties applicable to exports. The nation's competitiveness in foreign markets

will increase on account of lower costs of the transaction.

- **SME support:** Under the Composition Scheme introduced by GST, the small and medium-sized enterprises (SME's) can now register. According to their annual turnover, they can pay taxes through this scheme.

The Introduction of the Goods and Services Tax will be a very noteworthy step in the field of indirect tax reforms in India. By merging many Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation overall easy for the industries.

The most beneficial will be in terms of reduction in the overall tax burden on goods and services for the end customer. The introduction of GST will also make Indian products competitive in the domestic and international markets. Finally, the GST will be easier to administer because of its transparent character.

Once implemented, the proposed taxation system holds great promise in terms of sustaining growth for the Indian economy.

IMPACT OF GST

