Impact of goods and services tax on Indian economy

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ABSTRACT

The Goods and Services Tax (GST) is expected to provide the much needed stimulus 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 remove the cascading effect of taxes. The introduction of GST was highly anticipated not only within the country, but also among neighboring countries and developed economies of the world. Specific exclusion of services rendered by an employee to an employer in the course of or in relation to his/her employment is provided by the GST law. It is up to the government to address capacity building amongst the lesser-endowed participants, such as small-scale traders and manufacturers. A number of ways have to be found for lowering the overall compliance costs and necessary changes may have to be made for the good of the masses. GST will become simple and good, only when the entire country works as a whole towards making it successful. GST will have impact on investment by NRIs and expatriates as well as on businesses under an employer-employee scenario. This paper suggests the benefits of GST and its impact on Indian Economy.

Key words: Goods and services tax (GST), benefits and impact.

INTRODUCTION

On 1st July, the government made an ambitious shift to what it promised was a modern, transparent and technology-driven indirect tax system to sharpen the competitive edge of a $2.3 trillion Indian economy driven by internal trade barriers and a raft of central, state and local taxes. The goods and services tax (GST) was hailed as the biggest tax reform by India in 70 years of independence, a potential game-changer that would, at one stroke, unite the country of 1.3 billion people into a common market by dismantling inter-state tariff barriers. GST subsumed 17 central, state and local taxes in line with the “one nation, one market, one tax” concept on which it was based. The new regime had tax slabs for goods and services, 5, 12, 18 and 28%, respectively (Prasad, 2017).

GST is a consumption tax that is collected on sale of manufactured goods and services. It is an undertaking that is expected to provide the much needed stimulus 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.

IMPLEMENTATION OF GST

Implementation of GST will be one of the most significant reforms affecting all factors of production and economics. The implementation of a unified GST in India is viewed as one of the most far-reaching indirect tax reforms in the country. Broking firm Nomura explains that currently under the constitution, while the Union government is constrained from levying taxes on goods beyond the point of manufacturing, state governments cannot levy taxes on services. Thus, to simplify and unify the current indirect tax structure, an amendment to the current constitution is needed. The implementation of a unified and simplified
**IMPACT OF GST ON THE INDIAN ECONOMY**

GST is the biggest tax reform in India founded on the notion of “one nation, one market and one tax”. 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 is perceived as a rushed transition which may not assist the interests of the country ([https://cleartax.in/s/impact-of-gst-on-indian-economy](https://cleartax.in/s/impact-of-gst-on-indian-economy)).

One of the most important benefits of implementing the GST is that it would integrate the economy and provide for a common national market. Others are:

1) Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise;
2) Less tax compliance and a simplified tax policy compared to current tax structure;
3) Removal of cascading effect of taxes, that is, removes tax on tax;
4) Reduction of manufacturing costs due to lower burden of taxes on the manufacturing sector. Hence, prices of consumer goods will likely come down;
5) Lower the burden on the common man, that is, the public will have to shed less money to buy the same products that were costly earlier;
6) Increased demand and consumption of goods;
7) Increased demand will lead to increase in supply. Hence, this will ultimately lead to rise in the production of goods;
8) Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check;
9) Boost to the Indian economy in the long run.

These are possible only if the actual benefit of GST is passed on to the final consumer. There are other factors, such as the seller’s profit margin, that determines the final price of goods. GST alone does not determine the final price of goods ([https://www.deskera.in/gst-benefits-and-impact-on-indian-economy](https://www.deskera.in/gst-benefits-and-impact-on-indian-economy)).

**GST BENEFITS**

**Short-term benefits**

From the viewpoint of the consumer, they would now have to 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.

**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. Currently, in India, we have five 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 restricting itself to fewer or lower rates. This is 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.

**Medium-term benefits**

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 ([https://cleartax.in/s/impact-of-gst-on-indian-economy](https://cleartax.in/s/impact-of-gst-on-indian-economy 2018)).

**GST STRUCTURE**

The need for GST has been felt because under the current indirect tax structure: 1) tax barriers have fragmented the Indian market; 2) cascading effects of taxes on cost have made indigenous manufacture less attractive and 3) complex multiple taxes have raised cost of compliance.

The GST Council has finalized a four-tier GST tax structure of 5, 12, 18 and 28%, respectively with lower rates for essential items and the highest for luxury and demerits goods, including luxury cars, SUVs and tobacco products, that would also attract an additional cess. Moreover, with a view to keeping inflation under check, essential items including food, which presently constitute roughly half of the consumer inflation basket, will be taxed
at zero rates. The cess is expected to provide additional resources to the central government to compensate states for losses incurred. This will be based on the compensation formula (Rao, 2017).

GST is expected to have a favorable outcome on the economy by the following factors:

1) Removal of tax barriers with seamless credit will make India a common market leading to economies of scale in production and efficiency in supply chain;
2) Removal of cascading effect of taxes embedded in cost of production of goods and services significantly reduces cost of indigenous goods and indirectly promotes ‘Make in India’;
3) Facilitating ease of doing business, that is, integration of existing multiple taxes into single GST will significantly reduce cost of tax compliance and transaction cost;
4) Stable, transparent and predictable tax regime to encourage local and foreign investment in India creating significant job opportunities.

CONCLUSIONS

As the general impact of GST on the economy is positive, market naturally is pricing better days ahead. It is up to the government to address the capacity building amongst the lesser-endowed participants, such as the small-scale manufacturers and traders. Ways have to be found for lowering the overall compliance cost and necessary changes may have to be made for the good of the masses. GST will become good and simple, only when the entire country works as a whole towards making it successful.

REFERENCES


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