



GST: CHALLENGES, BENEFITS AND IMPACT ON INDIAN ECONOMY

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Abstract

In India comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1 July 2017. 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. 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 neighbouring countries and developed economies of the world.

Keywords: GST, economic growth, Challenges etc.

Introduction:

In India comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1 July 2017. 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. 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 neighbouring countries and developed economies of the world.

Objective of the Study:

- To study the concept of GST
- To study the objectives of the GST
- To examine the benefits and challenges of GST to the Indian Economy.
- To examine the how will impact GST on Indian Economy.

Source of Data:

The present study is based on secondary data sources. Secondary data collected from books, journals as well as related websites.

Concept and Definition of GST:

“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 producer’s / service provider’s point up to the retailers level where only the final consumer should bear the tax.”

The tax rate under GST are set at 0%, 5%, 12%, 18% and 28% for various goods and services, and almost 50% of goods & services comes under 18% tax rate. But how is our life going to change post GST? Let’s see how GST on some day-to-day good and services will have an impact on an end user’s pocket.

Footwear costing more than INR 500 will have a GST rate of 18% from an earlier rate of 14.41 rate but rates for the footwear below INR 500 has been reduced to 5%. So, you need to shell out more for buying a footwear above INR 500/-. And with respect to the ready-made garments, the rates have been reduced to 12% from an existing 18.16% which will make them cheaper.

Objectives of GST:

- One Country – One Tax
- Consumption based tax instead of Manufacturing
- Uniform registration, payment and Input Credit

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- To eliminate the cascading effect of Indirect taxes on single transaction
- Subsume all indirect taxes at Centre and State Level under
- Reduce tax evasion and corruption
- Increase productivity
- Increase Tax to GDP Ratio and revenue surplus
- Increase Compliance
- Reducing economic distortions

Regulatory Framework of GST

- A new set up by Government of India named as ‘GST Council’.
- The GST Council consists of
 - (a) the Union Finance Minister (as Chairman),
 - (b) the Union Minister of State in charge of Revenue or Finance, and
 - (c) the Minister in charge of Finance or Taxation or any other Minister, nominated by each state government.
- All decisions of the GST Council will be made by three fourth majority of the votes cast; the centre shall have one-third of the votes cast, and the states together shall have two-third of the votes cast.

Action Plan of GST Council

- List number of Taxes, cesses, and surcharges to be subsumed under GST
- Preparation of list of goods and services subject to, or exempt from GST
- Determination of threshold limit of turnover for application of GST
- Fixation of rates
- Preparation of model GST Laws, principles of levy, apportionment of tax benefits
- Firming up Place of supply Rules
- Recommend on Compensation to states losing on revenue post implementation of GST, subject to maximum time limit of 5 years.

Scope of GST

- All goods and services are covered under GST Regime except Alcoholic liquor for Human Consumption,
- Tobacco Products subject to levy of GST and Centre may also levy excise duty
- GST Council yet to decide the incidence and levy of GST on following;
 - a) Crude Petroleum
 - b) High Speed Diesel (HSD)

- c) Motor Spirit (Petrol)
- d) Natural Gas
- e) Aviation Turbine Fuel

Benefits of GST to the Indian Economy

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

- **Challenges of GST**

GST is meant to simplify the Indian indirect tax regime by replacing a host of taxes by a single unified tax, thereby subsuming central excise, service tax, VAT, entry tax, etc. However, there is a plethora of challenges before the government for its successful implementation. Some of these are highlighted below:

- The GST Constitutional Amendment Bill was passed by the Lok Sabha in May 2015. However, the government faced tremendous political set-backs and failed to get it passed in the Rajya Sabha during the monsoon and the winter sessions last year.
- Once this is achieved, another Herculean task would be to get the GST Bill passed by the respective state governments in state assemblies. The government would also be required to put the GST bill in the public domain and give sufficient time to all stakeholders to comprehend and give their views on the bill.

- A large part of the success of GST depends on two prominent factors – ‘RNR’ and ‘threshold limit’ for GST. RNR, ie the Revenue Neutral Rate, is the rate at which there will be no revenue loss to the government after implementation of GST. Needless to mention, RNR will impact India Inc adversely, if it is unduly higher than the present tax structure. Based on the study conducted by National Institute of Public Finance and Policy (NIPFP), RNR was decided at 27 percent. However, recently the Economic Advisor Panel recommended an RNR of 15 percent to 15.5 percent, ie a lower tax rate of 12 percent and a standard tax rate of 17 percent to 19 percent.
- Further, the threshold limit of turnover for dealers under GST is another bone of contention between the government and the Empowered Committee, aiming to broaden the tax base under GST.
- Another factor that will impact the success of GST is the robust IT backbone connecting all state governments, trade and industry, banks and other stakeholders on a real-time basis. The government has already incorporated an SPV viz. – Goods and Services Tax Network (GSTN), which has to develop a GST portal – front-end system for trade and industry and back-end system for all government agencies. GSTN will ensure technology support for registration, return filing, tax payment, IGST settlement, MIS and other dashboards on GST portal to all the stakeholders.
- GST is quite different from the existing indirect taxation system in the country. For effective implementation of GST, tax administration staff – both at central and state levels – would require to be trained properly in terms of concept, legislation and procedure. The tax administration staff would also need to change their mindset, approach and attitude towards the tax payers. And for this, they would have to ‘learn, unlearn, and relearn’ the GST not only in letter but in spirit too.
- As per the Constitutional Amendment Bill placed in the Lok Sabha, it was proposed that states would be allowed to levy an additional 1 percent non-vatable tax on inter-state supply of goods for the initial two years, in order to compensate the states for loss of revenue while moving to GST. This was supported by a few states, while a few others criticised the same. However, recently the Empowered Committee recommended abolition of the additional tax. There is no clarity on the same yet.
- The taxing events of ‘manufacture under central excise’, ‘sale under VAT’ and ‘provision of service under service tax’ will converge into one taxing event of ‘supply’ under GST, ie

GST will be levied on the event of supply of goods or services. The 'Place of Supply Rules' will thus form an important factor to determine the place of provision of goods or services.

- These are some of the major challenges before the government and the industry, ahead of the actual implementation of GST.

What change is expected in this budget:

- In the previous budget, the government indicated the date of April 1 2016 for the implementation of GST. However, given the set-backs suffered in the Parliamentary sessions in 2015, this date is far from reality.

- The bill is pending to be passed and no concrete instructions have been issued on the structure, draft, scheduling of implementation and procedural aspects of the law rendering lack of clarity among the stakeholders. Therefore, it is imperative that the government provides a clear line of sight in the upcoming budget for the draft structure of the statute enabling the industry to commence preparation for the same.

How will GST impact the Indian Economy?

- 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.
- 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 higher needs of buffer stock and warehousing costs. A single taxation system will eliminate this roadblock.
- 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.
- GST will add to the government revenues by extending the tax base.
- 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 the purview of taxation.
- GST will remove the custom duties applicable on exports. The nation's competitiveness in foreign markets will increase on account of lower costs of transaction.

Conclusion:

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 a large number of Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation

overall easy for the industries. For the end customer, the most beneficial will be in terms of reduction in the overall tax burden on goods and services. Introduction of GST will also make Indian products competitive in the domestic and international markets. Last but not least, the GST, because of its transparent character, will be easier to administer. Once implemented, the proposed taxation system holds great promise in terms of sustaining growth for the Indian economy. On priority, 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.

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