



## A STUDY OF GOODS AND SERVICE TAX AND ITS IMPACT ON VARIOUS SECTORS OF INDIAN ECONOMY

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### **Abstract:**

*This paper is a study of Goods and service tax (GST) system in India. GST is a single national uniform tax levied across India. Under GST, there would be just one tax rate for each goods and services to be levied by states and central governments. The major impact of introducing GST in India is the transformation in the fiscal structure of the Indian federal setup. The fiscal right of the states and centre to deal with goods and services independently will be taken away and both the Governments have to depend on each other's for managing the so called goods and services tax in future. GST would ensure equitable burden between the manufacturing and services. GST would also solve several issues like inflation and fiscal deficit. More important, from the businessman and consumer perspective, this change is going to have substantial impact on the business as well cost to consumers depending upon the structure of the business and location of business and consumer. The main theme of GST is to replace existing taxes like excise duty, sales tax, value- added tax and service tax. Here mentioned a brief description of the historical scenario of Indian taxation and its tax structure. In this paper also include impact of GST on Indian Economy.*

**Key words:** GST, Value- added Tax, Central value added tax, Consumer, Indian Economy.

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**Introduction:**

GST will be one of the biggest tax reforms that will replace all indirect taxes (like Central Excise Duty, Additional Exercise duty, Service Tax, Customs duty, State VAT etc.) levied on goods and services by the government both centre and state once it is implemented. It is an indirect consolidated tax, based on a uniform tax rate fixed for both goods and services (namely automobile, food products, telecom, insurance etc.) payable at the final point of consumption through a tax credit mechanism. GST subsumes a series of all indirect taxes under a single domain. The recommended GST bill gives concurrent powers to both states and the centre to make laws on the taxation of goods as well as services.

Consumer of manufacturing goods mean any form of an article or a component that is manufactured or distributed for sale to a consumer for his/her ultimate consumption. Implementation of GST bill will eliminate the cascading impact of taxes on production or distribution which will reduce the prices of goods and services and this will benefit the end users.

Implementation of GST bill will mark an important milestone in the field of Indirect Tax Reforms in India. It's likely to benefit all stake holders like The Governments, The Trade and Industry and the consumers at large. It will harmonize the taxing of consumption of goods and services uniformly throughout the country and will pave way for creation of common market across India.

**Objectives of the study:**

Following are the objectives of this paper.

- 1) To study the concept of Goods and Service.
- 2) To find out the effects of GST on Indian Economy.
- 3) To furnish information for further research work on GST.

**Introduction of Goods and Service Tax**

If the value added tax (VAT) is considered to be a major improvement over the pre-existing central excise duty at the national level and sales tax system at the state level, then the Goods and Service Tax (GST) will be a further significant breakthrough, we can say it is the next logical step towards a comprehensive indirect tax reform in the country. The concept of GST has gone through various stages and phases not just from present scenario but from past few years.

In 2000, the Vajpayee Government started discussion on GST by setting an empowered committee headed by Asim Dasgupta (Finance minister, Government of West

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Bengal). Later it prolonged its discussions and the proposal of GST was announced by Shri P. Chidambaram (Finance Minister) in the budget speech of 2006-07, which led to formation of empowered committee of State finance ministers which gave the report and the model of GST including design, road map for implementation etc. the empowered committee released its first discussion paper on GST in India on 10th November, 2009. A dual GST model has been accepted by the centre, it has two components, the Central GST to be levied and collected by the centre and the State GST to be levied and collected by States.

With introduction of GST Central Excise Duty, Additional Excise Duty, Service Tax, Additional Duty of Customs, State VAT, Entertainment Tax, Taxes on Lotteries, Betting, Gambling and Entry Tax (not levied by local bodies) would be subsumed within GST. For further development on GST a joint working group consisting of officers from central as well as state was constituted. The Goods and Service Tax (GST) Bill is officially known as the Constitution (122nd Amendment) Bill, 2014 to be implemented in India from April, 2016. It was introduced in Lok Sabha by Finance Minister Arun Jaitley on 19th December, 2015 and further moved to Rajya Sabha on 11th May, 2015 and report will be given at the end of monsoon session. The further process is pending until the decision given by Rajya Sabha.

#### **Impact of GST on Various Sectors:**

- 1. Government-Centre:** The collection of Income tax would increase with increase disclosure. The country would as a whole reduce corruption and move up ethical chain gradually. The compensation of loss to the states on account of implementation of GST would be an outgo.
- 2. Government-State:** The trading sector, manufacturing and service sector in the parallel economy would also get into the mainstream and pay taxes. This would lead to buoyant revenues over a period of time. The tax administration would be easier and cost of collection would be reduced.
- 3. Manufacturers:** There would be a saving in taxes absorbed at various stages of manufactures thereby reducing the cost of goods sold. This would make them more competitive both in domestic and international markets. The exports would be cheaper as taxes paid at earlier stages could be refunded. The difference between large manufactures and small would reduce. The indignity of harassments and bribe for honest manufacturers would substantially reduce over a period of time.
- 4. Consumers:** Generally the purchase price would reduce as tax content of most products would come down. However if a product has evaded tax completely then it

may find increase. Further those items which are now taxable where tax rate earlier was zero may be more expensive as exemption and zero rated list may come down in the GST regime. The tax paid would be transparent in the invoice given to the customer. No hidden taxes would have been paid. The difficult choice of paying more if bill demanded and less if without bill would over a period of time disappear as this is a self policing system. The free flow of trade (over a period of time) between states and throughout the country would provide more choice to the consumer.

5. **Traders:** The impact of tax on the wholesaler or retailer would be limited to the value addition. The tax paid at earlier stages (except SGST of other states) would be available as set off for payment of GST on supplies. Therefore traders would prefer to buy/ receive supplies with invoice. The tax payable as a percentage of the supply value would be small whereby the compliance would be more cost effective than evasion. Cost of products and services would reduce due to the cascading effect of tax being reduced. Traders in GST regime can concentrate on growth into large entities instead of remaining small and fragmented.
6. **Service Providers:** The present rate of tax on services is 14% (w.e.f 01.06.2015) which would be doubled in GST. This may seriously impact all the service providers especially who have long periods of realization. Those working on low margins may become unviable. The net tax payment maybe substantial as most advisory services the manpower costs is the maximum. Hardly any set off would be available. The goods used in providing the services would be eligible for credit. Hopefully the service exporters would see refunds coming promptly without a direct transaction cost. Present destination based to consumption based levy: Presently, service tax is levied at origin and is a destination based levy, the burden of which is borne by the end customer. Under GST, they would be taxed at the place of consumption.

**Service tax-SGST levied by States:** Under GST law, the service tax would be levied not just by Centre but also by the States who would be empowered to levy SGST by amendment to the Constitution of India. Taxes received by consuming State- If services are rendered from one State to another, then tax would ultimately go to the consuming State.

### **Conclusion:**

From the above discussion we concluded that GST is at the initial stage in Indian economy. It will take some time to experience its effects on Indian economy. GST

mechanism is designed in such a way that it is expected to generate good amount of revenue for both central and state government. Regarding corporate, businessmen and service providers it will be beneficial in long run. It will bring transparency in collection of indirect taxes benefiting both the Government and the people of India.

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