

Gst impact on indian economy

[Economics](#)



" Like, every coin has two sides, even this concept of GST has its own benefits and limitations, I leave on the reader to decide for them the impact of GST on economy whether on micro or macro level."

GST is great step of transformation of independent India " as one nation one tax". GST is simply the process in order to increase its efficiency of various indirect taxes in order to avoid the cascading effect so that the final cost to customer will go down. Cascading effect is where you pay tax over and over on the same commodity at different stages of its production.

The main objective of GST is to remove the cascading effect and converting multiple taxes into one tax on supply chain of goods and services. GST with multiple tax rates will not lead to any Inflationary effect due to its implementation. The aim of multiple tax rates structure is not regressive on the common man. GST is a simple tax system now the tax payer won't be confused about what type of taxes he should pay.

GST is introduced as " one nation one tax". Therefore, the paper will argue on how does this tax reform affect the Indian economy. Further it will argue on the reaction of the Indian business community. Further it will argue on is GST good or bad for India and what are the benefits and drawbacks of GST. Further this paper will cover why petroleum products were kept out of GST and what will happen if we bring it under the purview of GST.

Introduction

" Like, every coin has two sides, even this concept of GST has its own benefits and limitations, we leave on the reader to decide for them the impact of GST whether on micro or macro level."

GST regime was not an overnight concept as in the pre-GST regime there was a cascading effect which was the main reason of inflation and by that reason every market player, customer needs this type of tax regime and it is expected to major effect to Indian economy. In India for the first time the seed of GST was sown in the year 1999-2000 by the Atal bihari Vajpayee Government.

After the dissolution of Vajpayee Government then in the year of 2005 the financeminister P. Chidambaram in his parliament budget session announced that there was the requirement of changes in the indirect tax system to curb the inflation. Then the first time in the year 2010 the finance minister Pranab Mukherjee addressed the GST, then in the year of 2011 by the 115th constitutional amendment bill was introduced in Lok Sabha for levy the GST on all goods and services but finally in the year 2014 the GST bill was passed in 122nd constitutional amendment and in the year 2016 the GST bill was passed in Rajya Sabha.

According to Hon'ble Prime Minister of India, Shri Narendra Damodardas Modi, GST is great step of transformation of independent India " as one nation one tax". GST is simply the process in order to increase its efficiency of various indirect taxes in order to avoid the cascading effect so that the

final cost to customer will go down. Cascading effect is where you pay tax over and over on the same commodity at different stages of its production.

The main objective of GST is to remove the cascading effect and converting multiple taxes into one tax on supply chain of goods and services. India has proposed to adopt concurrent Dual GST model for implementing GST.

Concurrent dual GST means Tax levied by centre & state on both goods and services adopted by Brazil, Canada, India.

The Finance Minister in the budget speech 2015 had emphasized the intent of the government to implement GST in India. In the Budget Speech of 2015, the Finance Minister highlighted that a very important dimension to our tax administration is the fight against the scourge of blackmoney. No one had anticipated demonetization at that time which became a reality in 2016.

While the Government was criticized, it was a great step for the country and tax collection of 2016-17 increased by approximately 18%. He added that taxation is an instrument of social and economic engineering and that tax collections help the Government to provide education, healthcare, housing and other basic facilities to the people to improve their quality of life and to address the problems of poverty, unemployment and slow development.

To achieve these objectives, the endeavor was to foster a stable taxation policy and non-adversarial tax administration. Further Mr. Jaitley emphasized that GST would play a transformative role in the way the economy function.

All other GST countries have one or two tax rates but India have 5 multiple tax rates. India has the highest tax rate among all the countries where GST

has been implemented. France was the first country who had introduced and implemented GST in 1954 at the rate of 20%, Canada had introduced GST in 1991 at the rate of 15%. GST with multiple tax rates will not lead to any Inflationary effect due to its implementation, said Finance Minister Arun Jaitley. The aim of multiple tax rates structure is not regressive on the common man.

GST is a simple tax system now the tax payer won't be confused about what type of taxes he should pay. GST is introduced as "one nation one tax" but it is not true because GST "one nation one tax" means there should be one rate on all items which are coming under the ambit of GST. As GST rates are 0%, 5%, 12%, 18%, 28%. Apart from there are some products like Petroleum, diesel, electricity, alcohol for human consumption etc. They have been kept outside the purview of GST, it should not be like it.

But on the other hand multiple rates of taxes structure must be required for a country like India in which larger population belongs to lower-middle class. If the tax rates on goods and services are increased to 18% or 28% on all daily consumable items such as flour, rice, fruits, vegetables etc. there would be sharp increase in the inflation, then the major effect on GST has been on the lower-middle income class group.

It is necessary to maintain equality in the society. The daily consumable items are covered under the nil rate of tax i. e. 0% and on the other side luxury items are covered under 28%. This formation of GST rates are formed to maintain equality in the society. Therefore, single rate under GST would have totally neglect the social structure of a wide country like ours.

Example of GST Calculation Let us assume that the GST is set at 5% Suppose that the manufacturing cost of a Product A is 100 and assuming a GST of 5% the total amount is Rs. 105 The next step of taxation would be when the Product is sold to consumers, let's say at a price of 150. So the GST will charge another 5% on just the difference of Rs. 150 and Rs. 105 i. e. only 5% on Rs. 45 which is equal to Rs. 2. 25.

So the final price is Rs. 150 + Rs. 2. 25. Unlike the case of petrol pricing there is no tax on a tax now. This eliminates the cascading effect of taxes which is very prevalent in our economy and has been simplified to an elemental level in the example. Since the GST will be applied at every step of value creation it will be very difficult for black money owners to participate anywhere in the value chain with the GST without accounting for all other transactions.

Research Methodology

This paper is based on experienced study. It is a type of detailed research paper.

Objective of the paper

- To study about the concept of GST.
- To emphasize the impact to Indian economy.
- To provide suggestions and recommendation regarding GST.

Benefits of GST to Indian Economy

- The multiple tax rates were to ensure that there would be no inflationary effect due to its implementation.

- It is necessary to filling the gap between higher class community and middle -lower class community.
- Multiple tax rates structure is not regressive on the common man.
- 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.
- Elimination of cascading effect of taxes i. e. removes tax on tax.
- Manufacturing costs reduced due to lower burden of taxes on the manufacturing sector. Hence prices of goods will be likely to go down.
- Tax reform lift to the Indian economy growth rate.

Drawbacks of GST to Indian Economy

- Accounting more get difficult due to multiple tax rate.
- Increase complexity in filing of GST return.
- The multiple tax rate structure is against the idea of a levying GST at a single rate on all the goods and services.
- Multiple tax rate structure creates more complexity in the administration.
- It could lead to disputes on classification of goods and services.

Criticisms

- Rahul Gandhi calls GST is " Gabar Singh Tax".
- Mamta Banerjee calls GST is " The Great Selfish Tax".
- Bibek Debroy (well known economists) calls GST as " desire to tax items".

- P. Chidambaram calls GST is " Presenting VAT in new shape".

How will GST Impact to the Indian Economy

Reduction of tax burden on producers or manufactures will lead the growth of Indian economy through more production. The pre- GST regime where so many different types of indirect taxes prevents the manufacturer from producing their optimum utilization of resources and delay growth but by the implementation of GST the problem of growth of production has been resolved by providing tax credit to the manufactures.

Positive Impact of GST on Indian Economy

From the implementation of GST there is so many positive impact on Indian Economy. Some of the ways GST will benefit are:

Ease of starting business-A business having so many operation across different states. In pre-GST they need VAT registration and have to follow different tax rules of different states this only lead to make complications in the doing of business but post-GST eliminated all the barriers to follow different tax rules of different states. Further GST enables a single registration that make ease of starting new business.

Eliminating of confusion between goods and services- Before GST there were lots of confusion regarding bundle products in which there was a mix of goods as well as services like Restaurant, Works contract, etc. GST brings clarity on this issue and removes the confusion between goods and services as now works contract and restaurant both come under services.

Increase in collection of tax- After the implementation of GST the tax collection of government has boosted up. Now government will use the funds

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for the development of the country which will result in better infrastructure of the country and development.

Tax burden reduced on new business- In pre-GST businesses whose annual turnover more than rupees 5 lacs requires VAT registration but in post-GST the government of India extends the exemption limit to 20 lacs, this gives relief to over 60% of small dealers and traders.

Improved logistics and faster delivery of services- In pre-GST there was an entry tax which was imposed on movement of goods from one state to another state by the state government. But under GST there is no entry tax on movement of goods, this will get reduced the cost price of manufacturing and is expected to boost the ecommerce across the nation.

Elimination of web of rates and name of taxes- Earlier in Service tax there were lots of tax rates with cesses like Krishi Kalyan Cess, Swachh Bharat Cess, etc. with lot of abatements in the rates which leads to confusion regarding applicable tax rates and their credit availability but under GST regime there are only 5 predefined tax rates and brings clarity regarding credit availability.

Negative impact of GST on Indian Economy

Burden of Tax Compliances- In pre GST regime in VAT assessee had to file only single monthly return and one annual return of sales in totality there were only thirteen returns in whole year but under GST an assessee has to file three monthly returns and one annual return in totality there are thirty seven return in a year. This will create a lot of problems for small and uneducated assesses.

Textile industry under tax- It happens first time in the history of tax that any tax brings the textile industry under tax regime. Now even textile traders have to register under GST. In pre-GST regime textile industry was exempted from tax.

Costly luxury products & services - Earlier there were Excise duty/ service tax and VAT and luxury tax but now under GST there is the highest tax rate of 28% with compensation Cess of 15% in aggregate the GST is much more than that of earlier taxes.

Removal of petroleum products from GST- As we all know the commerce is depends on the transportation and in current regime customer pays different kinds of taxes on petroleum products such as Excise duty, VAT, dealer commission etc. I will show you with the help of chart as it given below-

1. Simplified Calculation Chart for Petrol & Diesel Prices in New Delhi -
(3rd June 2018)

Petrol Price * Diesel Price Calculation *

2. International Price of Crude Oil with Ocean Freight (as on 3rd
June 2018) 78. 3 \$ or Rs 5245 per Barrel 78. 3 \$ or Rs 5245 per Barrel
1 Barrel of Crude Oil 159 Litre 159 Litre

3. Crude Oil - Cost per Litre Rs 32. 98 per Litre Rs 32. 98 per Litre
Basic OMC Cost Calculation *

4. Entry Tax, Refinery Processing, Landing Cost & Other Operational Costs
along with Margins Rs 2. 1 per Litre Rs 5. 23 per Litre
OMC Margin, Transportation, Freight cost Rs 3. 31 per Litre Rs 2. 87 per
Litre

Basic Cost of Fuel after Refining Cost Rs 38. 39 per Litre Rs 41. 08 per Litre

5. Additional: Excise Duty + Road Cess as Charged by Central Government Rs 19. 48 / Litre on Petrol Rs 15. 33 / Lit on Diesel Pricing Charged to Dealers before VAT Rs 57. 87 per Litre Rs 56. 41 per Litre

Calculating Dealer Retail Price - Base Location Delhi

1. Commission to Petrol Pump Dealers Rs 3. 63 per Litre Rs 2. 53 per Litre

Fuel Cost Before VAT (rounded off for approximation) Rs 61. 50 per Litre Rs 58. 94 per Litre

2. Additional: VAT (Varies from State to State - 27% on Petrol & 16. 75% on Diesel + 25p as Pollution Cess with Surcharge) Rs 16. 61 / Lit on Petrol Rs 10. 17 / Litre on Diesel

Final Retail Price as on 3rd June 2018 -(calculation) Rs 78. 11 per Litre Rs 69. 11 per Litre

Why petroleum products were kept out of GST?

As repeatedly requested by Mr. Dharmendra pradhan that petroleum products should come under the preview of GST regime. Petroleum products is the biggest sources of tax collection of the government that's why neither central government nor state government is willing to petroleum products should come under the ambit of GST. Also finance ministry believes that it will complicate the tax structure if petroleum products come under the purview of GST.

What will happen if petroleum products come under the ambit of GST?

The main reason of inflation is cost of petroleum products that affect the Indian economy, GDP growth in so many ways. In case if GST applies on petroleum products then firstly all the current indirect taxes such as VAT, Excise duty etc would subsume under GST. If we assume that petroleum product come under highest GST slab rate i. e. 28%, so, petroleum products price will fall down sharply which means cost price of daily products and other products will go down sharply and ultimately it will be beneficial to the consumer.

Conclusion

GST concept is very good but the implementation of GST as of today is not satisfactory and appears that it has been launched without proper preparation moreover it appears that GST Act is enacted without understanding the business problems as it is required day to day amendment in the meeting of GST council. If it is really a one nation, one tax system I would like to say that the attempt from the government was very good but the result was not so far effective as they completely forgotten to look into the problem and shackles GST has created for the people in India.

This in itself shows that the business community was not contacted before enacting the laws and the rate of taxes under the act. Further the impact of GST on Indian economy is going to be biggest boon in the medium and small enterprises. As inflation gets reduced by elimination of cascading effect and the revenue of government gets increased from new tax regime i. e. GST. It is going to be biggest boon if it gets implemented perfectly.