

GST India: Effects on Indian Economy

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Abstract: *The introduction of GST is a single move enveloping all indirect taxes that will make country single unified common market. It is a destination based multipoint tax system covering in its ambit both goods and services. It is single tax on the supply of goods or service, right from the manufacturer to the consumer where credits of GST input taxes paid at each stage shall be available in the subsequent stages of value addition, thus, makes GST essentially a tax only on the value addition at each stage.¹ Hence, the final consumer will bear only the GST charged by the last dealer in the value chain along with set off benefits at all the previous stages. All other indirect taxes will be abolished once GST becomes applicable. Being India as federal in structure, three types of GST will be levied - Central GST (CGST), State GST (SGST) and Integrated GST (IGST). This paper highlights the concept, benefits and sectoral analysis of the economy in the implementation of GST along with types of GST returns.*

Keywords: *GST, Economy, Tax structure, price, consumer.*

1. INTRODUCTION:

“GST is 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 retailer’s level where only the final consumer should bear the tax.”²

France is the first country in the world which has implemented GST in 1954. In India, the Constitution 115th Amendment Bill, 2011 was introduced in Parliament to enable the levy of GST. The government has appointed various committees, task force to give their views to introduce a vibrant and modern indirect tax structure in India. However, the Bill lapsed with the discussion of the 15th Lok Sabha and then, the bill was passed by Lok Sabha in May 2015 and referred to a Select Committee of Rajya Sabha for examination.³

2. OBJECTIVES OF STUDY

- To understand the basic concept of the GST
- To study the various types of GST returns in brief
- To draw out the sectoral analysis of GST
- To study the benefits of GST implementation on Indian Economy

Single Taxation System

The following Central and state taxes shall be brought under the umbrella of GST ⁴:-

| Central Level Taxes | State Level Taxes |
|---------------------------------------|--|
| 1. Central Excise Duty | 1. Subsuming of State Value Added Tax/ Sale Tax |
| 2. Additional Excise Duty | 2. Entertainment Tax(other than levied by the local bodies), Central Sales Tax(levied by the Centre and collected by the states) |
| 3. Service Tax | 3. Octroi and Entry Tax |
| 4. Countervailing duty | 4. Purchase Tax |
| 5. Special Additional Duty of Customs | 5. Luxury Tax |
| | 6. Taxes on lottery, betting and gambling |

It has been long pending discussion to abolish various types of indirect taxes and implement a single taxation system. This system is called as GST. The main expectation from this system is to terminate all indirect taxes and only GST would be levied both on goods and services.

3. TYPES OF GST RETURNS:

There are many returns under the ambit of GST. The most common used returns will be GSTR1, GSTR2, GSTR3, GSTR4 and GSTR9.

| Return | Purpose | Frequency | Due Date |
|--------|--|-----------|---|
| GSTR1 | Outward sales by business | Monthly | 10 th of next month |
| GSTR2 | Purchases made by business | Monthly | 15 th of next month |
| GSTR3 | GST monthly return along with payment of amount of tax | Monthly | 20 th of next month |
| GSTR4 | Quarterly return of tax | Quarterly | 18 th of next quarter |
| GSTR5 | Periodic return by Non-Resident foreign taxpayer | Monthly | 20 th of next month |
| GSTR6 | Return for Input Service Distributor | Monthly | 15 th of next month |
| GSTR7 | GST return for TDS | Monthly | 10 th of next month |
| GSTR8 | GST return for economic suppliers | Monthly | 10 th of next month |
| GSTR9 | GST annual return | Annually | 31 st of next financial year |

Source :- www.legalraasta.com/gst-return/⁵

The above mentioned GSTR shall be filed by the businessmen on monthly basis except GSTR5 and GSTR9 that would be filed on quarterly and annually basis respectively.

4. BENEFITS OF GST:

4.1 Simple Life

GST is expected to replace multiple indirect taxes, thereby contributing to decrease in compliance cost. All assesses will find comfortable under GST as the compliance cost will be reduced.

4.2 Boost in revenue

The practice of tax evasion shall come down, which means that that input tax credit shall motivate the suppliers to pay the taxes honestly. This will eventually reduce the number of goods which are exempted from tax⁶. Revenue Neutral Rate can be the principle of GST introduction in India.

4.3 A common Market

GST is single move unifying all indirect taxes for the whole nation that will make India one unified common market. GST is always preferred in a unified form which means that one single GST for the whole nation which can be instead of the dual GST format. However, India is adopting dual GST looking into the federal structure; it is still a good move towards a unified GST indirect taxation system.

4.4 Decrease in Logistic Costs

The proposed GST model will help companies to reduce logistics cost by 1.5 to 2.5% as they reconfigure their supply chains and bring key structural changes to the logistic industry⁷. It will fast track the distribution of goods and services and improve operational efficiencies.

4.5 Investment boost

GST will create level playing field between the organised and unorganised sectors. Free trade and open markets will lead to more investments which in turn will boost the economy. It will also attract more foreign direct investments across sectors due to tax transparency and ease of doing business.

4.6 Rise in GDP:

According to IMF, the adoption of GST could help GDP growth to over 8% and create a single nation market for enhancing the efficiency of the intra-Indian movement of goods and services⁸. As the GST will subsume of other indirect taxes, the exemption available for manufacturers in regards excise duty will be taken off which will be an addition to government revenue that could result in an increase in GDP. The increased income of the government will be redirected towards the development projects.

4.7 Reduction in prices

Due to lower burden of taxes on the manufacturing sector, the manufacturing costs will be reduced, hence prices of consumer goods likely to come down. Also, due to reduced costs some products like cars, etc. will become cheaper. The low prices will further lead to an increase in the demand/consumption of goods.

Thus, the benefits available to business, government and consumer on the implementation can be summarised in nut shell as follows⁹:-

| BUSINESS | CENTRAL & STATE GOVT | CONSUMER |
|--|---|---|
| <ul style="list-style-type: none"> Wider Tax Base Eradication of multicibility of taxes Simplification & Automation of compliance procedures Decrease in transaction costs of doing business | <ul style="list-style-type: none"> Boost in revenue Simple & easy to administer More transparency Efficient and effective control on leakages | <ul style="list-style-type: none"> Minimization of tax burden Reduction in prices of goods & services |

| | | |
|--|--|--|
| <ul style="list-style-type: none"> Competitive environment for Indian goods & Services in International markets Uniformity of Tax rates & structures Removal of cascading | | |
|--|--|--|

5. SECTORAL ANALYSIS OF GST:

The impact of GST has both positive and negative effects on various sectors which can be analysed in tabular form below¹⁰:-

| | | | |
|---|---|---|--|
| TECHNOLOGICAL <ul style="list-style-type: none"> Eliminate multiple levels Deeper penetration of digital services Increase in cost of mobiles & laptops due to several delivery centres | FMCG <ul style="list-style-type: none"> Substantial savings in logistics & distribution costs Increase in prices of aerated beverages & tobacco products | E COMMERCE <ul style="list-style-type: none"> Single unified market Free movement & supply of goods Increase in administration & documentation workload | TELECOM <ul style="list-style-type: none"> Prices of handset to come down Ease of doing business Increase in call rates and data charges |
| AUTOMOBILES <ul style="list-style-type: none"> On road prices of vehicles to come down Demand for commercial vehicles expected to fall | MEDIA <ul style="list-style-type: none"> Reduction in prices of movies Boos in revenue for multiplexes | INSURANCE <ul style="list-style-type: none"> Life, Health & Motor insurance shall become costlier | AIRLINES <ul style="list-style-type: none"> Journey by air to become costlier |

6. CONCLUSION:

Considering the federal structure of India, it is proposed that GST will be levied concurrently by the Centre (CGST) and the states (SGST). It is expected that the basic model and other critical design features would be common between CGST and SGST across SGSTs for individual states. Both CGST and SGST would be levied on the basis of the destination principle. The strong IT infrastructure needs to be developed for a smooth implementation. Removal of tax barriers on introduction of uniform GST will make country a common unified market leading to greater economies of scale in production and efficiency in supply chain. It will expand sales and commerce and modernised warehousing leading to a greater ease of doing business and big savings in logistic costs across all sectors.

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