GST: Impact and Challenges Faced by Indian Economy

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Abstract:- “Goods and service tax “is a comprehensive indirect tax levied on manufacturer, sale and consumption of goods and services throughout India. It is meant to simplify the indirect tax regime of India by replacing a large group of taxes by a single tax and is a significant step towards the development of the country. It was one of the biggest tax revolutions which was set with an objective to integrate the state and national economy to boost the overall growth of the country. This paper reveals an outline of GST concept highlighting its main features and problems faced in its effective implementation. Also it focuses on challenges faced by India in execution of GST and its effect on Indian economy.

Keywords: Goods and Service tax, Indirect Tax, challenges, economy.

I. Introduction

The word tax is derived from the Latin word “taxare” meaning “to estimate”. “A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority” and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name.” Broadly, there are two types of Taxes: Direct and Indirect taxes. Taxes in India are levied by the Central Government and the State Governments.

The Goods and Service tax is basically an amalgamated indirect tax throughout the nation on all products and services. Before the introduction of GST the tax was levied at various stages on the production of the goods by Union and State government. There are two constituents of GST while the transactions are done within the state - namely Central Goods and Service tax (CGST) and State Goods and Service tax. In the case of inter-State transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST). The IGST would be roughly equal to CGST plus SGST. (Source: PIB)

Goods and Service tax being a simple tax should lead to much easier administration. According to consumer point of view deduction in the overall tax which is currently estimated at 25%-30%, free movements of goods and services from one state to another state borders from hours of payment of state tax or entry tax and reduction in paper work to a large extent.

Objective of the Study

1. To study the concept of Goods and Services Tax (GST)

2. To study the impact of GST on Indian Economy

II. Concept of GST

The Goods and Service tax was introduced in India on 1st July 2017 with an objective to eliminate various multiple taxes which were a part of central and state government and to offer uneven tax system all over the nation. The GST tax model is enthused from the GST model of Canada. The employment of GST in the country has made India the 160th country in the world to present an integrated tax rule which introduces four regimes (5%, 12%, 18% and 28%).

GST stands for “Goods and Services Tax”, and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. Its main objective is to consolidates all indirect tax levies into a single tax, except customs (excluding SAD) replacing multiple tax levies, overcoming the limitations of existing indirect tax structure, and creating efficiencies in tax administration. It is a tax is a tax levied on goods and services imposed at each point of sale or rendering of service. GST is an indirect tax in lieu of tax on goods (excise) and tax on service (service tax). The GST is just like State level VAT which is levied as tax on sale of goods. GST will be a national level value added tax applicable on goods and services. A major change in administering GST will be that the tax incidence is at the point of sale as against the present system of point of origin.

According to the Task Force under the 13th Finance Commission, GST, as a well-designed value added tax on all goods and services, is the most elegant method to eliminate distortions and to tax consumption. One of the reasons to go the GST way is to facilitate seamless credit across the entire supply chain and across all States under a common tax base.
It is a tax on goods and services, which will be levied at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider can claim the input credit of tax which he has paid while purchasing the goods or procuring the service. This is because they include GST in the price of the goods and services they sell and can claim credits for the most GST included in the price of goods and services they buy. The cost of GST is borne by the final consumer, who can’t claim GST credits, i.e. input credit of the tax paid.

Impact of GST on Indian Economy

Impact on Consumer goods and services

In case of consumer goods and services, the main concerns are food and the services sectorBroadly services have become costlier under the GST regime, as the GST rate is higher than the existing service Tax rate of 15%. Clearly, the GST will bring down prices of indigenously manufacture goods on account of current effective indirect taxes( central excise @12.5%, state VAT @ 5% - 15% etc) being higher as compared to recommended lower GST rate @ 5% and standard GST rates @ 12% and 18%. Thus, food products are charged 0% and services in general are seeing an increase of 18% from 15%. On the other hand, the implementation of GST increases the tax on footwear and garments priced at INR 500 from the previous 14.41% to 18% but those priced lower than INR 500 are taxed lower at 5%. For ready-made garments, the rates are lowered to 12% from 18.16%. Mobile services rates are slightly increased, though, because of the new 18% rate, from 15% before. When it comes to direct-to-home and cable services, the new fixed rate of 18% can be considered a general reduction as compared to the previous 10%-30% range and the additional service tax of 15%.

Impact on Transportation

Under GST, cab and taxi rides are taxed lower, from 6% to 5%. For those who travel by air, GST is favorable as the tax rate is lowered to 5% for the economy class and 12% for business class. Train fare, meanwhile, is mostly unaffected as the change is minimal, from 4.5% to 5%. Those who travel by sleeper are not affected by the tax rate change but those who travel first class are charged more.

Impact on Entertainment and Hospitality Industry

The impact of Goods and Service Tax is felt by most of the hospitality industry in India and majorly by metropolitan cities. According to the survey much effect was felt by Mumbai and Bengaluru due to lack of clarity on regulations which acted as a major hurdle. But still there was a positive response from most of the restaurant owners in the two cities which believed that GST is a positive decision for the industry and it will ease compliance since it is backed by technology, said the survey by Grant Thornton India, a leading assurance, tax and advisory firm.

Impact on Economic Activities

It’s difficult and too early to evaluate whether or not GST has positively affected economic activity. The Indian government, however, believes that they are on the right track with GST. At least one Indian business executive shares this optimistic view of GST. These benefits include the establishment of a national market, improved ease of doing business in India, better productivity and efficiency, and improved compliance among taxpayers.

III. Challenges faced by Indian Economy

The Indian GST model which is based on Canadian GST model would have been a successful in our country if we would have not been a diversified country, thus it has to face various failures and challenges for its successful implementation.

The foremost belief on which GST works i.e. one nation one tax can’t be implemented in a country like India. Before GST there were 32 taxes inclusive of 29 state VAT taxes, one sales tax, one excise tax and one service tax. But after the introduction of GST the figure for taxes has not shown an impressive decline. Now we have 31 taxes which include 29 SGST taxes, one CGST and one IGST which is again an intricate tax construction and contradicts the basic approach of single tax in the country.

Also according to the Constitutional Provisions and Judgments on GST in India the 101st amendment in the constitution, Article 246 a states that parliament and state can levy taxes on supply of goods and services which implies that not parliament but state can have its own GST which again contradicts the one tax regime.

Article 279 A of the constitution says that GST council has only recommendatory powers. So it’s up to state governments to implement its ideas. In this way state government levies its own GST and distorts the entire GST system of the country. On 11th November 2016, 9 judges on behalf of the Supreme Court of India gave its judgment regarding entry tax case that every state is as sovereign as parliament in its powers to levy taxes. So it gives free hand to state by which they can levy their own GST.

GST system is totally dependent on the online submission of taxes which in result overburdens the online system of the Ministry Of Corporate Affairs and the online infrastructure existing is not very sound, so the problem of hanging and website crashes occurs repeatedly which makes tax filing more adverse than before.

http://www.ijritcc.org
Due to the implementation of the present GST system in the country it also increases the problem of tax evasion which results in huge loss in the economic condition of the country due to the following provision existing in the Bill which states that business entity with an annual turnover less than Rs. 20 lakhs is given exemptions under GST registration. The above provision provided in the bill is the biggest loophole which can increase the problem of tax evasion and can be explained by a simple example — If a businessman owns a firm or company with an annual turnover of 80 lakhs and falls under the taxpaying category according to the norms of the GST but rather paying taxes he divides his business into 4 firms of 20-20 lakhs and make his wife, son, daughter and himself director of the following four firms and by showing the business into four parts with an annual turnover of rupees 20 lakhs he is not entitled to pay GST but originally these four firms were only in the papers and he saves his firm which has annual turnover of 80 lakh rupees to pay GST and this is how people will do tax evasion in many forms and thus, will result in huge economic loss to our country.

Source: Challenges & shortcomings of GST in India / Article by Kunal Sharma

Cases

1. GST in India: Impact and challenges

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The Goods and Services Tax (GST) dominion is an unconcerned attempt by the government to justify the indirect tax structure of the country. The government should study in depth the GST mechanism set up by different countries around the globe and also their fallouts before implementation. No doubt GST had simplified the existing indirect tax system and helps to overcome the cascading effect of tax. The bill was introduced to implement one country one tax but resulted into a pitfall as the price of basic goods and services had gone upward, in spite of government demand for a positive change in the economy with a GDP growth rate of 6.3% in Q2 of 2017-18 as against 7.5% in the second quarter of last year. It is clear that the economy is slowing down due to unplanned implementation of GST thus the disruptions may have accelerated the decline. The only possible remedy for this disruption is to make the transition to GST simpler.

2. GST: An economic overview: Challenges and Impact ahead

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Taxation plays a significant role in the development of the economy as it impacts the efficiency and equity. It is expected that a good system should control income distribution and at the same time it will also endeavor to generate tax revenue which will support government expenditure on public services and development of infrastructure. GST will have positive impact on Indian economy. GST have faced lots of controversy and opposition in terms of its implementation. Finally the GST bill has been passed and it ready to roll out in market. Time will only decide whether it will have positive impact or negative impact. International trade, firms and consumer will have new system of tax which is single level and more transparent. The new system of taxation is considered to be more improved system over the preexisting central excise duty at the national level and sales tax system at state level. The new tax will be significant breakthrough and a logical step towards a comprehensive indirect tax reforms in the country. GST is not only Vat plus service tax but it is major improvement over previous VAT system. A single tax will help maintain simplicity and transparency by treating all goods and services equal without giving a special treatment to some types of goods and services. It will reduce the litigation on classification of issues. It is also said that implementation of GST in Indian framework will lead to commercial benefits which VAT has not given and hence it would essentially lead to economic development. GST may assure the possibility of overall gain for industry, trade, agriculture and also to central and state government. Now Indian consumer need to have professionalism to acknowledge the GST. It is sure that India will join the international standards of taxation corporate laws and managerial practices and also be among the world leaders.

IV. Conclusion

The Goods and Service tax model that was introduced in India on 1st July 2017 was an indifferent approach by the government to rationalize the indirect tax structure of the country. An attempt should have been made by the government to study in gravity the entire framework of GST model around the world before its employment in the country. No doubt GST had simplified the existing indirect tax system which helps to overcome the cascading effect of
tax. But the primary objective of GST was to have one tax one country which resulted into a drawback since the prices of elementary goods and services have risen, in spite of government demand for a positive change in the economy with a GDP growth rate of 6.3% in second quarter of 2017-18 as against 7.5% in the second quarter of last year i.e. 2016-17. It is clear that the economy is slowing down due to unforeseen employment of GST thus the disruptions may have enhanced the decline. The only possible remedy for this disruption is to make the transition to GST simpler.

References

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