



ANALYTICAL STUDY OF GOODS AND SERVICE TAX : A STUDY

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Abstract: *The research paper is regarding impact of GST on Indian Economy. With the introduction of GST there is a condition chaos and confusion among common man. The aim this research paper is to explain the mechanism of GST and its effects on Indian economy. In India, the idea of GST was contemplated in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003, named Kelkar Committee. The Kelkar Committee was convinced that a dual GST system shall be able to tax almost all the goods and services and the Indian economy shall be able to have wider market of tax base, improve revenue collection through levying and collection of indirect tax and more pragmatic approach of efficient resource allocation. Under the Goods and Service Tax mechanism, every person is be liable to pay tax on output and shall be entitled to enjoy credit on input tax paid and tax shall be only on the amount of value added .*

Keywords: *GST, Indian Economy, Positive Impact, Negative Impact, Central Government, State Government*

Introduction

GST stands for Goods and Services Tax levied by the Government in a move to replace all of the indirect taxes. In India, the idea of GST was contemplated in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003, named Kelkar Committee. The Kelkar Committee was convinced that a dual GST system shall be able to tax almost all the goods and services and the Indian economy shall be able to have wider market of tax base, improve revenue collection through levying and collection of indirect tax and more pragmatic approach of efficient resource allocation. Under the Goods and Service Tax mechanism, every person is be liable to pay tax on output and shall be entitled to enjoy credit on input tax paid and tax shall be only on the amount of value added . The principal aim of GST is to eliminate cascading effect i.e. tax on tax and it will lead to bringing about cost competitiveness of the products and services both at the national and international market.

Research Methodology

The research paper is based on empirical study. It is a type of descriptive research paper.

Objectives of Study:

1. The first objective of the paper is to highlight the impact of GST on Indian Economy.
2. The second objective is to explain the working mechanism of GST in India.



Importance of the Study:

1. The study will highlight the effect of GST on Indian Economy.
2. It will prove to be of great help to a common man to understand the concept the GST.
3. It will remove the morbid fear of GST from among the business community members.

Data Collection:

This paper is a descriptive paper based on secondary data collected from different books, news-paper articles and research journals.

Need for GST:

1. The main reason behind introducing GST is to improve the economy of the nation.
2. VAT rates and regulations differ from state to state. And it has been observed that states often resort to slashing these rates for attracting investors. This results in loss of revenue for both the Central as well as State government.
3. On the other hand, GST brings in uniform tax laws across all the states spanning across diverse industries. Here, the taxes would be divided between the Central and State government based on a predefined and pre-approved formula. In addition, it would become much easier to offer services and goods uniformly across the nation, since there won't be any additional state-levied tax.
4. GST rollout missed several deadlines due to disagreement among many states over certain important issues on the new tax reform. However GST is scheduled for a nation-wide rollout on July 1st, 2017

Features of GST

1. GST is one indirect tax for the entire nation, which will make India "one unified common market".
2. It will replace multiple taxes like VAT, CST, Excise Duty, Entry Tax, Octroi, LBT, Luxury Tax ect.
3. There are four types of GST namely:
 - a) SGST – State GST, collected by the State Govt.
 - b) CGST – Central GST, collected by the Central Govt.
 - c) IGST – Integrated GST, collected by the Central Govt.
 - d) UTGST – Union Territory GST, collected by the Union Territory
- 4) Tax Payers with an aggregate turnover in a financial year up [Rs. 20 Lakhs & Rs. 10 Lakhs for North Eastern States and Special Category States] would be exempted from tax.
4. GST slabs are pegged at 5%, 12%, 18% & 28%.

Impact of GST in India :

Positive Impact of GST in India:

1. GST is a single taxation system that will reduce the number of indirect taxes. From now, a single taxation term would cover all of those indirect taxes.
2. The prices of products and services would reduce, thus this system would prove to be beneficial for the people who are fed up of paying high prices.
3. This would reduce the burden from the state and the central government. With the introduction of GST, all indirect taxes would come under a single roof.



4. GST would not be charged at every point of sale like other indirect taxes so in this way, market would be developed.
5. Corruption-free taxation system. GST would introduce corruption-free taxation system.
6. Less tax compliance.

Negative Impact of GST in India:

1. The introduction of GST in the country will impact real estate market. This would increase new home buying price by 8% and reduce buyers market by 12%.
2. GST is a mystifying term where double tax is charged in the name of a single tax.
3. Most of the dealers don't pay central excise tax and cheat the government by simply giving the VAT. But all of those dealers would now be forced to pay GST.
4. The short-term impact of GST is expected to be neutral-to negative for the broader economy.
5. Production processes are likely to take some time to align with the new framework as firms adjust to the input tax credit system and better manage working capital requirements.
6. For consumers, it will be a mixed bag as some goods become cheaper while others will be expensive.
7. Services will become expensive e.g. Telecom, banking, airline etc.
8. Being a new tax, it will take some time for the people to understand its implications.

Impact of GST on Manufacturers, Distributor and Retailers

GST is expected to boost competitiveness and performance in India's manufacturing sector. Declining exports and high infrastructure spending are just some of the concerns of this sector. Multiple indirect taxes have also increased the administrative costs for manufacturers and distributors and it is being hoped that with GST in place, the compliance burden will ease and this sector will grow more strongly.

Impact of GST on Service Providers

As of March 2014, there were 12, 76,861 service tax assesses in the country out of which only the top 50 paid more than 50% of the tax collected nationwide. Most of the tax burden is borne by domains such as IT services, telecommunication services, Insurance industry, business support services, Banking and Financial services etc. These pan-India businesses already work in a unified market, and while they will see compliance burden becoming lesser there will apparently not be much change in the way they function even after GST implementation.

Sector-wise Impact Analysis

Logistics

In a vast country like India, the logistics sector forms the backbone of the economy. We can fairly assume that a well organized and mature logistics industry has the potential to leapfrog the "Make In India" initiative of the Government of India to its desired position.

**E-com**

The e-com sector in India has been growing by leaps and bounds. In many ways, GST will help the e-com sector's continued growth but the long-term effects will be particularly interesting because the model GST law specifically proposes a tax collection at source (TCS) mechanism, which e-com companies are not too happy with. The current rate of TCS is at 1% and it will remain to be seen if it dilutes the rapid boom in this sector in any way in the future.

Pharma

On the whole, GST is expected to benefit the pharma and healthcare industries. It will create a level playing field for generic drug makers, boost medical tourism and simplify the tax structure. If there is any concern whatsoever, then it relates to the pricing structure (as per latest news). The pharma sector is hoping for a tax respite as it will make affordable healthcare easier to access by all.

Telecommunications

In the telecom sector, prices are expected to come down after GST. Manufacturers will save on costs through efficient management of inventory and by consolidating their warehouses. Handset manufacturers will find it easier to sell their equipment as GST will negate the need to set up state-specific entities, and transfer stocks. They will also save up on logistics costs.

Textile

The Indian textile industry provides employment to a large number of skilled and unskilled workers in the country. It contributes about 10% of the total annual export, and this value is likely to increase under GST. GST would affect the cotton value chain of the textile industry which is chosen by most small medium enterprises as it currently attracts zero central excise duty (under optional route).

Real Estate

The real estate sector is one of the most pivotal sectors of the Indian economy, playing an important role in employment generation in India. The probable impact of GST on the real estate sector cannot be fully assessed as it largely depends on the tax rates. However, it is a given that the sector will see substantial benefits from GST implementation, as it will bring to the industry much required transparency and accountability.

Agriculture

Agricultural sector is the largest contributing sector to the overall Indian GDP. It covers around 16% of Indian GDP. One of the major issues faced by the agricultural sector is transportation of agri products across state lines all over India. It is highly probable that GST will resolve the issue of transportation. GST may provide India with its first National Market for the agricultural goods. However, there are a lot of clarifications which need to be provided for rates for agricultural products.

Automobiles

The automobile industry in India is a vast business producing a large number of cars annually, fueled mostly by the huge population of the country. Under the current tax system, there are several taxes applicable on this sector like excise, VAT, sales tax, road tax, motor vehicle tax, registration duty which will be subsumed by GST. Though there is still some ambiguity due to tax rates and incentives/exemptions



provided by different states to the manufacturers/dealers for manufacturing car/bus/bike, the future of the industry looks rosy.

Banking, Financial Services And Insurance (BFSI)

Among the services provided by Banks and NBFCs, financial services such as fund based, fee-based and insurance services will see major shifts from the current scenario. Owing to the nature and volume of operations provided by banks and NBFC vis a vis lease transactions, hire purchase, related to actionable claims, fund and non-fund based services etc., GST compliance will be quite difficult to implement in these sectors.

Conclusion

GST is at the infant 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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