Review Article

Impact of Goods and Services Tax (GST) on Indian Economy

Dr. Amit Sharma*
RML PG College, Kalyanpur, Kanpur Uttar Pradesh.

Abstract

One of the impacts of GST on the budgets of the Indian unions is that, as soon as the various indirect taxes disappear, all changes to the indirect tax before the implementation of the GST in the budget were included in Budget B, which deals with of the tax proposals. However, the decision to change the current GST rate is made by the GST Committee. Therefore, no significant changes are expected in the GST tax law beyond the change of basic rates beyond the scope of GST. FM can be mentioned about the 2018 forecast change, which is your budget, but you cannot implement specific changes through the budget itself. Another effect of the GST on the federal budget is the steady decline in government revenues after the implementation of the GST, exerting additional pressure on the government's already adjusted fiscal deficit target. With the need to strengthen public spending in various sectors, the fall of the GST collection causes a situation in which FM cannot address the 2018 budget.

Keywords: GST, Good, Service GST, Service Tax

Copyright © 2017, Alok Kumar Singh. This is an open access article for the issue release and distributed under the NRJP Journals License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Introduction

Taxes on products and services are the biggest tax reforms since independence, says NIIT CEO Amitabh Kant GST, who will help India achieve a 9 percent growth rate. Some experts estimate that GST will increase GDP by 1-2% and, in the long run, reduce inflation by 2%.

The proposed benefits of GST are:

• GST guides the national common market and includes the diversity of central and state taxes.
• GST will increase the resources needed to combat poverty and development.
• The GST will promote an India to "make India".

The current tax structure is destroying India by altering the Indian market according to the Indian market. This distortion is caused by three characteristics of the current system: the Central Sales Tax (CST) for sales of goods across the country; numerous cross-border taxes; Extensive nature of the countervailing duty exemptions that favor imports over domestic production. In a raid, GST will correct all distortions: the CST will be eliminated; most other taxes are included in the GST. Because GST will
apply to imports, the negative protection that favors imports and offends domestic manufacturing will be eliminated.

The GST would improve tax governance.

The GST of India will be a leap in the creation of a much cleaner double VAT that minimizes the disadvantages of a completely independent and fully centralized system. The tax rates (weekly, weekly and weekly) that are very similar to the common base and the general tax rates (goods and services throughout the country) facilitate the management and improve the compliance and at the same time manage the collection of taxes for the International sales. At the same time, the exception to the permissible additional special tax on special items (the Center's oil and tobacco, state oil and alcohol) will provide the necessary financial autonomy for the United States.

On the other hand, however, it is important to analyze the impact of the GST in the three subsectors of agriculture, industry and services(1). An analysis of this subsector will help GST determine how to help accelerate economic growth.

Impact on Agriculture

In the agriculture sector we shall look at how GST will impact cost of agriculture inputs, Supply chain of agriculture products and unification of agriculture in one national market.

a) Agricultural Inputs

All taxes on inputs imposed on inputs used in the agricultural sector, such as seeds, fertilizers, pesticides, tractors, etc., contribute to increase the costs of agricultural production. On the other hand, agricultural production prices are controlled by market forces that farmers can barely control. Because input prices are raising and production prices are stagnating, farmers have no choice but to absorb the costs, increasing the burden. Farmers in India are already under great pressure for many purposes, and as the tax increases, there will be craters in their income. In this context, let's look at the incidence of taxes for some key entries.

Seed: seeds were exempted under the old tax structure and the new GST regime.

Tractor: the tax incidence of the tractors combined with the VAT for the final product is the total tax rate of the industry of 12-13%. The fixing of 12% GST in the entrances of tractors and tractors allows the manufacturers to deduct the accumulated tariffs and taxes. Therefore, the total tax incidence of the tractors will remain at approximately the same level and the implementation in the tractor industry is neutral.

Fertilizers - Fertilisers an important element of agriculture was previously taxed at 6% (1% Excise + 5% VAT). In the GST regime, the tax on fertilisers has been reduced to 5%. Thereby reducing cost for farmers

Pesticides - Pesticides currently attract an excise duty of 12.5 per cent. But under GST regime, crop protection products like pesticides are taxable at 18%. So, this might increase tax burden on farmer.
So, by and large either tax incidence under GST regime is similar to incidence under earlier tax structure.

<table>
<thead>
<tr>
<th>Agriculture Input</th>
<th>Tax burden under previous Tax Regime</th>
<th>Tax burden under GST Tax Regime</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seeds</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Tractors</td>
<td>12-13%</td>
<td>12%</td>
</tr>
<tr>
<td>Fertilizers</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Pesticides</td>
<td>12.5%</td>
<td>12%</td>
</tr>
</tbody>
</table>

b) Supply chain

One of the major issues faced by the agricultural sector is the transportation of agriculture products across state lines all over India. Agricultural commodities are perishable in nature in varying degrees therefore trade is influenced by the time required for transportation. The Economist reports that long distance trucks in India are parked for 60 per cent of the time during transportation. Currently, trucks wait outsides for hours to pay taxes on borders of states and cities. These taxes are State entry tax and Octroi. However, GST will subsume State entry tax and Octroi this means seamless movement of trucks. Thus, simple uniform tax regime is expected to improve the transportation time, and curtail wastage of precious food as well as it would ease interstate movement of agricultural commodities which would improve marketing efficiency, facilitate development of virtual markets through warehouses and reduce overhead marketing cost (2).

c) Agriculture Trade

The taxes applicable on agricultural trade vary from state to state. The degree of market distortions on account of variation in the levy of market taxes/cess applicable on different commodities in different states are presented in Table below:

<table>
<thead>
<tr>
<th>Name of the State</th>
<th>Sales Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>All Commodities (except Maize, Jowar, Ragi, Bajra, Coarse grains) 4%</td>
</tr>
<tr>
<td>Assam</td>
<td>All commodities (except rice, wheat, pulm, f&amp;v, fish, gur, atta, maida etc.)-4-8 %</td>
</tr>
<tr>
<td>Delhi</td>
<td>F &amp; V- nil Oilseeds-3 % Methi-7 %</td>
</tr>
</tbody>
</table>
The implementation of GST is a move towards making One National Agricultural Market on account of subsuming all kinds of taxes/cess on marketing of agricultural produce.

Impact on Industries

Industrial sector mainly consist of Manufacturing, Construction, Mining and Utilities (electricity, gas water etc.). Manufacturing is the main sub-sector among these and we shall analyze the impact of GST on Manufacturing(3).

The share of Manufacturing in GDP is stagnant at 16%, however the share is 42% in China. Some of the reasons for such a low share are multiple indirect tax legislations which have led to significant compliance and administrative costs, classification and valuation disputes. So, tax reforms are critical and necessary to give a boost to an already flagging sector. There will be reduction in tax burden on majority of manufactured goods post GST implementation. A look at important components of manufacturing like automobiles sector reveal that effective tax rate would reduce in Automobile sector the biggest benefit would go to SUV segment. Under FMCG, by and large tax burden would reduce. The biggest relief would be in Soap and Hair oil segment.

<table>
<thead>
<tr>
<th>Segment</th>
<th>Total pre GST rate</th>
<th>GST</th>
<th>Cess</th>
<th>Effective GST</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two/three wheelers</td>
<td>30.2%</td>
<td>28.0%</td>
<td>0.0%</td>
<td>28.0%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Mid Segment Cars</td>
<td>47.3%</td>
<td>28.0%</td>
<td>15.0%</td>
<td>43.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Sports Utility Vehicles</td>
<td>55.3%</td>
<td>28.0%</td>
<td>15.0%</td>
<td>43.0%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Commercial vehicles</td>
<td>30.2%</td>
<td>28.0%</td>
<td>0.0%</td>
<td>28.0%</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

FMCG

<table>
<thead>
<tr>
<th>Segment</th>
<th>Excise</th>
<th>VAT</th>
<th>Total pre GST rate</th>
<th>GST</th>
<th>Change</th>
</tr>
</thead>
</table>

JBMQA (15-23) NRJP Journals 2018 © All Right Reserve
Impact of Goods and Services Tax (GST) on Indian Economy
Dr. Amit Sharma

<table>
<thead>
<tr>
<th></th>
<th>MRP</th>
<th>12.0%</th>
<th>12.4%</th>
<th>13.5%</th>
<th>18.0%</th>
<th>5.6%</th>
<th>9.7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soap</td>
<td>12.5%</td>
<td>13.5%</td>
<td>27.7%</td>
<td>8.0%</td>
<td>9.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shampoo</td>
<td>12.5%</td>
<td>13.5%</td>
<td>27.7%</td>
<td>8.0%</td>
<td>-0.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pastries and cakes</td>
<td>6.0%</td>
<td>6.0%</td>
<td>12.4%</td>
<td>18.0%</td>
<td>-5.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waffles and wafers coated with chocolate</td>
<td>12.5%</td>
<td>6.0%</td>
<td>19.3%</td>
<td>28.0%</td>
<td>-8.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Milk</td>
<td>0.0%</td>
<td>13.5%</td>
<td>13.5%</td>
<td>12.0%</td>
<td>1.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghee</td>
<td>13.5%</td>
<td>13.5%</td>
<td>12.0%</td>
<td>1.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Butter</td>
<td>12.5%</td>
<td>13.5%</td>
<td>27.7%</td>
<td>18.0%</td>
<td>9.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hair Oil</td>
<td>12.5%</td>
<td>13.5%</td>
<td>27.7%</td>
<td>18.0%</td>
<td>9.7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Some other aspects of GST which will add to competitiveness and ease of doing business of manufacturing sector are as follow:

a) Correct Valuation of goods - Currently, various pre-packaged products for retail consumption are subject to excise duty not on the ex-factory transaction value but on a specified percentage of the maximum retail price (MRP) printed on the package. The MRP based value (which is usually between 30%-35% of the MRP) is in most cases, much higher than the ex-factory transaction value leading to a higher excise duty liability than would otherwise be the case. This increased excise duty itself, results in a higher MRP, ultimately leading to a higher cost burden for the consumers. Under the GST regime, GST is payable by the manufacturer at the transaction value, and is creditable for all subsequent resellers up to the final consumer. Accordingly, the unnecessary tax burden of the MRP regime will no longer be relevant.

b) Reduction of cascading taxes - Under the present indirect tax regime, Central taxes cannot be set-off against State taxes and vice versa. This often leads to a situation where manufacturers are unable to set off excess credit of central or state levies. Further, central sales tax paid on inter-state procurements is also not creditable and are costs for the company. Another issue is the cascading of taxes at the post manufacturing stage. Dealers, retailers etc. are subject to taxes on their input side which are not creditable (service tax on input services, excise duty on capital goods). This leads to an increase in the cost of goods, ultimately affecting the competitiveness of Indian manufactured goods vis-à-vis imports.

All of the above issues are addressed under GST, which permits tax set offs across the production value-chain, both for goods and services. This will result in a reduction of the cascading effect of taxes and bring down the overall cost of production of goods.

c) Formalization of Manufacturing - Input credit is proposed to be allowed only if the details declared by a taxpayer matches with the details declared by vendors in their returns.

This will incentivize vendors supplying to manufacturing firms to move from informal
to formal sector, because if they are in informal sector and do not furnish bill to their customers i.e. manufacturing units then these units will route supplies from those vendors which provide bills.

d) Reduc of classification disputes - Currently, due to varying rates of excise duty and VAT on different products, as well as several exemptions provided under excise and VAT legislations, classification disputes are a regular cause for litigation under both central excise and VAT, especially for the manufacturing sector(4). It is expected that the inception of GST which is based on the principles of a simplified rate structure and minimization of exemptions will significantly reduce disputes regarding classification of products.

e) Supply chain restructuring based on economic factors - Current supply and distribution models are structured to optimize indirect tax impact arising at various levels of value addition. Transition to GST should hopefully result in such decisions being taken to optimize business efficiency (as opposed to indirect tax efficiency). For Example- currently warehousing choices are often based on arbitrage between VAT rates in different States/ between applicable VAT and CST rates. With the advent of GST, it is hoped that such warehousing and logistics decision would be based on economic efficiency such as costs and location advantages vis-a-vis key customers.

Impact on services

The service sector represents 60% of GDP (2013-14) and contributes 70% of total GDP growth every year since 2011-12. The adverse effects of the new detergent can hamper the overall growth of the Indian economy(5). On the other hand, the introduction of new detergents will stimulate overall growth. Assessments of risks, opportunities and challenges include:

a) Risks: the government announced a four-step GST coefficient structure of 5%, 12%, 18% and 28%. However, most services are subject to 18% tax. The GST regime will increase the tax incidence in this sector since the sector is now subject to a tax of 15%. According to economic principles, the final product sold may be held back by price increases. This may be bad news as the export-oriented portion of services, such as business processes and the IT industry, is slowing due to the protectionist position of advanced nations, including the United States, and the service sector is not. it is working well.

However, the service sector also includes administration and defense, which can see great growth due to the increase in tax revenues, the strengthening of the tax base and the ease of tax compliance.

b) Opportunity: services that go into production with services such as GST entry credits and shipping services for product purchases. There must be at least two separate effects in the processing of this service entry. First, producers can automatically deduct product prices because they can receive tax credits for the entry of the service. Second, the outsourcing of
services will increase. Since supported tax credits are available for services, many of the production processes produced by producers are outsourced to third parties. These third parties will provide services at a lower cost than those produced by the producers due to economies of scale and division of labor. As a result, the cost of the final product will be reduced due to a lower intake of products.

c) Challenges - A four-tier tax slab and differential rate between the goods and services sectors may distort/influence business by providing arbitrage practice. For example, if a car is taxed at 10 per cent and leasing rates are at 18 per cent, we may have a situation where car sales could be replaced by car leasing. In the area of composite services, a contract may be specially designed to avail the lower rates on services. Therefore, there are implications in the area of dispute management.

On Taxation system

Both CENVAT and VAT are incomplete. The imperfections of CENVAT are that they have not yet been extended to include the value chain in the distribution trade below the production stage. Also of taxes, additional duties added, some because it did not include tax and tax service providers including central taxes within the scope range / manufacturer's distributors, such as surcharges on the general framework of CENVAT. The introduction of GST will collectively capture some added value in distribution trade, as well as to include the integration of three more indirect centralized goods and services tax for cancellation.

Similarly, because CENVAT paid for the goods in the current VAT system at the national level has not yet been eliminated, it will not mitigate the cascading effect of the tax part. In addition, there are a number of taxes in the United States, such as high taxes, entertainment taxes, etc. that are not included in the VAT. In addition, with the elimination of the cascade effect of the service tax, it did not include VAT on the goods that tax the service at the state level. In addition, only the burden of the central sales tax (CST) for the transboundary movement of goods reduced by reducing the CST rate from 4% to 2% of this charge has not completely disappeared. Because it will be added to the CENVAT tax burden and service as the GST was introduced nationally to eliminate globally it is successively compensated for the terms provider and original services of the manufacturer at the retail level, all with terraces, including the CENVAT charge and tax service Effect loading. This is the essence of GST. The main central and provincial taxes are also included in the GST, which reduces tax variability and reduces compliance costs. With GST, the CST load is also phased out.

Consumer

As GST, all the chain effects of CENVAT are introduced and the service rate will be withdrawn from the producer point that is possible within the framework of the CENVAT system and generally more inclusive VAT through the continuous displacement of a smaller branch. Certain important central and state taxes are also included in the GST an(6)d the CST is
phased out. The others are the same, and generally the tax burden on the goods will belong to the GST, which will help the consumer.

**Impact of GST On Budget 2018-19**

Budget 2018-19 is the first union Budget after the implementation of GST in July 2017. After the implementation most provisions of the Goods and Services Tax (GST) were tweaked and tax rates of numerous products were reduced in subsequent GST council meets which resulted in a sharp decline in government’s tax collection figures. GST replaced more than a dozen indirect taxes; these indirect taxes together formed a bulk of the government's earnings. Service tax alone accounted for more than 14% of the government's revenue in the last Budget in 2017.

Thus fall is GST collection is a major cause for concern for the FM. Finance Minister Arun Jaitley who is also the GST Council Chief has stated that Budget 2018 will provide further opportunity for him to address issues related to GST and also to further tweak the GST rates. Almost every sector desires a rate cut in the GST rates but probably only a few of these expectations will be met on the budget day given the precarious fiscal situation that the FM has to deal with.

**Effect of GST on Union Budget of India**

One of the impacts of GST on the budgets of the Indian unions is that, as soon as the various indirect taxes disappear, all changes to the indirect tax before the implementation of the GST in the budget were included in Budget B, which deals with of the tax proposals. However, the decision to change the current GST rate is made by the GST Committee. Therefore, no significant changes are expected in the GST tax law beyond the change of basic rates beyond the scope of GST. FM can be mentioned about the 2018 forecast change, which is your budget, but you cannot implement specific changes through the budget itself. Another effect of the GST on the federal budget is the steady decline in government revenues after the implementation of the GST, exerting additional pressure on the government's already adjusted fiscal deficit target. With the need to strengthen public spending in various sectors, the fall of the GST collection causes a situation in which FM cannot address the 2018 budget.

**Challenges related to GST in Budget 2018**

The most important challenges related to the GST for FM depend on the decrease in GST revenues. The GST collection has been steadily heading south since September. This is because SMEs choose to report their quarterly earnings instead of the GST rate cuts for many products and the monthly returns initially proposed. If the current trend continues, the government's GST collection will be lower than the indirect tax collection of the pre-GST era and this will have a major impact on the government's fiscal integration agenda. So, the biggest challenge related to GST before FM is to improve the GST collection through better compliance, technology and other means. Another challenge for FM is to expand the GST base, and we can see that in the 2018
Budget. Governments can provide tax incentives and discounts to make taxpayers honest and difficult to evade the GST. Since the introduced GST is supposed to be an easy-to-use tax scheme, additional steps are also envisaged to simplify the GST system. The 2018 budget can also be used to address some of the problems that affect the GST system, such as export refunds, technology bottlenecks, etc. associated with the GST department.

**GST related decisions expected in the Budget 2018**

The main decisions related to the GST that can be identified in the 2018 budget are to reduce the real estate sector to the GST range with diesel, natural gas and gasoline. FM cannot reduce the GST rate of a product in its budget, but can announce its intention to reduce GST rates for products such as electric cars, farmers and other agricultural products used by others. One of the expectations associated with GST in the budget is that we can now increase the limit of the GST configuration system, currently 15 Lakhs, to 30 Lakhs. Clarifications are provided on the imposition of electronic bill validators, the centralized registry for banks, insurance companies and financial institutions, and other decisions of the GST with respect to the termination of certain restrictions on tax credits for inputs. In order to minimize the compliance burden of SMEs, the decision to declare a monophasic return by adding the three basic income forms of GSTR1, GSTR2 and GSTR3 can be addressed in a speech on budget day.

**Conclusion**

GST will not increase the tax burden drastically, and in many cases total tax burden will decline due to removal of cascading effect replacement of gamut of tax systems by one tax systems. The biggest gain shall be from increase in competitiveness and ease of doing business which GST brings with it. The overall impact is expected to be positive on economy thereby increasing the overall economic growth.

**Reference**

4. Repo M. RBI to maintain status quo with likely revision in the next fiscal. Policy. 2018.