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Dr. Ravikumr S
Post-Doctoral Fellow
Department of P.G Studies
and Research in Economics
Kuvempu University
Jnanasahyadri,
Shankaraghatta Bhadracathi,
Shivamoga, Karnataka, India

Goods and service tax: A game changer of Indian economy

Dr. Ravikumr S

Abstract

The Goods and Service Tax (GST) is a revolutionary indirect tax structure introduced by the Government of India post-independence. It is a giant tax structure merging all indirect taxes such as Central GST and State GST into a single pool. The simplified tax structure boosts the economy by way of enhancing business, greater transparency, one tax one market, and diminishes the price of product, removing tax on tax effect, increasing efficiency in administration, and lowering tax burden on average dealer in industry, trade and agriculture. The Merged Central GST and State GST would enhance the export of Indian goods and service, making them more competitive at the international level. It has eradicated the cascading effect of indirect taxes; as a result, the prices of goods and services are gradually decreasing in the market. India has moved towards the concept of One Nation One Tax. Further, one market leads to boosting the Indian economy. The objectives of the study are to study the concept of GST, and to study the impact of GST on Indian economy. The intended study is based on secondary sources of data gathered from various books, articles, journals, websites, and reports.

Keywords: Goods and Service Tax, CGST, SGST, Boosting the economy

1. Introduction

The Goods and Services Tax (GST), introduced by the Government of India on 1 July 2017, is the biggest tax reforms in India ever since Independence. It has indeed been a historic occasion and a paradigm shift as India moved towards 'One Nation, One Tax, One Market, 'and one tax by amalgamation of several central and state indirect taxes in to a single pool. Goods and Services Tax are expected to create a hub of massive inflows of foreign direct investment than before, countering the cut throat nature of Indian products in both domestic and international markets and also expected to usher in stability to the tax regime. Simultaneously it will be transparent and easier to administer. Hence the Goods and Service Tax, as a giant of tax reforms in the country has the possibility to hoist growth pathway for the economic development of the country. It is evident from the global scenario that, the introduction of GST results in several advantages for every stakeholder. As for as the Indian GST system is concerned, the consumers will get advantage from lower prices of goods due to elimination of cascading in taxes and efficiency gains

The trade and industry in the country will also benefit from the GST because of homogeneous, one and only indirect tax all over the country, not to be faulted flow of input tax credit, and elimination of tax associated obstacles at the inter-state transport of goods and service at borders, condensed logistic costs and least interface with the tax authorities. The manufacturers will be able to take more cogent decisions about supply of raw materials, setting-up of manufacturing and warehousing amenities. Jointly, central and the state governments will observe tax optimism and the tax gathering costs will decrease considerably.

After Introduction of GST exports will become more competitive as goods and services will be exported without any taxes embedded in them. 'Make in India' programme will get a major boost because of augmented simplicity of doing commerce and safety from low-priced imports as whole imports will be caused to experience incorporated GST and some extension basic customs duty. The entire advantages will aid considerably to the GDP growth of India in the medium and long run. This will lead to development of the economy in the long run. Considering the above the intended study aims at Goods and Service Tax – A Game Changer of Indian Economy and is viewed as the need for the study.

2. Review of Literature

For the purpose some of the important earlier works were examined to get better insight on the topic:

Corresponding Author:
Dr. Ravikumr S
Post-Doctoral Fellow
Department of P.G Studies
and Research in Economics
Kuvempu University
Jnanasahyadri,
Shankaraghatta Bhadracathi,
Shivamoga, Karnataka, India

The Indirect Taxes Committee of ICAI(2015) that published “GST – A Boon for Indian Economy” (concepts and Benefits) has elucidated the features and benefits of GST with examples along with concepts of Revenue Neutral Rate, IT Strategy of GST, comparison between present and proposed tax regime, etc. A study made by Sarbjit Singh (2017)^[4] GST (Goods and Services Tax) - A Game Changer for India found that, GST increases the growth rate of the country between 2 and 2.5 per cent due to reduction in direct cost and cost reduction on capital inputs. Further, others have estimated the Indian economic growth between 1.5 and 2 per cent faster on implementation of the GST. The GST will help widening the coverage tax base and tax compliance. It enhances higher revenue and further growth of the economy.

Geetanjali Sharma and Miriam George (2017)^[1] in their study on GST-A Game Changer in Indian Tax Structure explained the Evolution of GST, Comparing Present Tax structure and GST, how GST would function in India, the challenges in implementing GST. Further they analyzed that, GST is expected to bring in benefits in the form of higher GDP and also transparency in the tax system. The Levied GST on the value –addition results in lesser scope for tax evasion in the country. Meenakshi Bindal and Dinesh Chand Gupta (2018)^[3] in their study on Impact of GST on Indian Economy found that, GST is a transparent tax that reduces number of indirect taxes. It also boosts the Revenue of the Government as a result of no cascading effect and there will be no tax Evasion in the country. Further GST will create common market and enhances the efficient in administration in the country.

3. Objectives

1. To assess the concept of goods and service tax in India.
2. To study the benefits of goods and service tax and its impact on the different sectors of Indian economy.

4. Methodology

The intended study is based on secondary source of data, gathered from various books, articles, census reports, annual reports, government documents, journals and official records.

I. Concept of goods and service tax

Goods and Service Tax is a sort of indirect tax and it has replaced various Indirect Taxes in India. The Goods and Service Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017. GST, is a historic tax reform in the country since independence that aims at entirely transforming the Indirect Taxation scenario in the country. It is the largest tax reform in India and it would pave the way for comprehensive realization of the goal of One Nation One Tax –One Market and it is anticipated to benefit all the stakeholders such as industry, government and consumers. It is expected that under the GST regime the cost of goods and services will be lowered, the economy will get a boost and the Indian products and services will be made globally competitive, in turn giving a major boost to the ‘Make in India’ initiative. Under the GST regime, exports will be more competitive at the international level.

II. Components of GST

There are 3 taxes connected under this system such as CGST, SGST & IGST.

- **CGST:** Gathered by the Central Government on an intra-state sale (E.g.: transaction happening within Maharashtra)
- **SGST:** Gathered by the State Government on an intra-state sale (E.g.: transaction happening within Maharashtra)
- **IGST:** It is by the Central Government for inter-state sale (E.g.: Maharashtra to Tamil Nadu) in most cases, the tax structure under the new regime will be as follows.

III. Benefits of goods and service tax

Goods and Service Tax is a revolutionary tax reform in the Indian tax structure which has eliminated primarily cascading effect on the sale of goods and services. The cascading effect has impacted the cost of goods. Under the GST system removal of the tax on tax, the cost of goods diminishes. Goods and Service Tax is also chiefly technologically driven. Almost all the proceedings such as registration return filing, application for reimbursement and reply to notice needs to be done online on the GST Portal. It enhances faster development processes.

Removals of tax on tax effect

Earlier numerous taxes were imposed on the same manufactured goods that augmented the price of the product. With the introduction of Goods and Service Tax, it has eradicated the tax on tax effect by providing credit for the taxes paid.

Product identification

Under the earlier the tax regime, categorization of products into different categories it had caused a number of taxes and hence was a controversial matter. Goods and Service Tax aimed at resolving this issue by bringing in coordinated arrangement of taxonomy which is an eight-digit code to identify products according to international standards.

One tax-one market

Goods and Service Tax intends to make India a common market with common tax rates and procedures and eliminate the economic obstacles, thus paving the way for an integrated economy at the national level. It has a win-win situation for the entire stakeholders, namely, industry, government and the consumer. It reduces the cost of goods and services provide a boost to the economy and make the products and services globally competitive.

More transparency

Goods and Service Tax, as it is predominantly technology driven, will minimize the human interference to a great extent and this would lead to fast decision. It will bring more transparency to indirect tax laws.

Diminishing of price of products

Goods and Service Tax will be advantageous to the consumer by the way of charged the manufacturing cost and gathered at the point of sale. As a result, price will come down. Consequently, the consumption of the consumers will enhance and it will benefit the companies.

Enhance the export

In the GST regime, export will be zero-rated, entirely dissimilar to the current system, where repayment of some taxes may not occur due to bitty nature of indirect taxes between the Centre and the States. It will enhance Indian exports in the international market.

Simple conformity

Entire conformity such as registration, returns, payments, etc., in the GST regime will have to be done online, which will make conformity in the GST regime comfortable and transparent.

IV. Impact of good and service tax on different sectors of the Indian economy

Service sector

The Service Sector is the major share of Gross Domestic Product (GDP) in our country. It is contributing about 56 per cent to the GDP in the country. The implementation of GST brought a several changes in the tax structure of this sector. The earlier GST Services will become more costly except few such as movie ticket, health care and insurance. The majority of the services such as banking charges, insurance premium, railways, air travel and telephone charges will become costlier after GST. Goods and Service Tax brought several changes in the tax structure of this sector. This can be seen in the following table.1

Table 1: Impact of GST on Service Sector

Service Sectors	Before GST %	After GST %
Insurance	15	18
Premium		
Banking	15	18
Charges		
Telephone	15	18
Mobile		
Movie	40	28
Ticket		
Card rides	6	5
Maintenance	16	18
Charges		
Air Travel Economy Class	6	5
Air Travel Business Class	9	12
Health Care	5	0

Source: Data collected from <https://cleartax.in/s/sac-codes-gst-rates-for-services> reproduced in Hemlata Tiwari and Shambhu Nath Singh (2018) ^[2] Goods and Service Tax: Economic Revival of India, SAGE Publications [sagepub.in/home.nav http://journals.sagepub.com/home/par.p.24](http://journals.sagepub.com/home/par.p.24)

Hospitality sector

Hospitality Sector is another very important growing sector in the country. There has been lot of changes on tax rate in this sector. Nowadays people will have to pay further more taxes on luxurious hotels. The government has reduced tax rate to 0 per cent for stay on in low-priced rental hotels (below 1,000 per day). After GST five-star hotels have become costlier. Government has facilitated to low-and middle-income groups by reducing tax rate on hotel booking of less than `5,000 and low turnover restaurant. This reduction of tax rate is counterbalance by government by mounting tax rate for luxury hotels and five-star hotels. Several outcomes can be seen on tax rate under this sector. It can be shown in the below Table 2.

Table 2: Impact of GST on Hospitality Sector

Hospitality Sector	Before GST %	After GST %
Hotel booking	15	0
Less than 1000		
Hotel booking	15	12
(1,000–2,500)		
Hotel booking	15	18
(2,500–5,000)		
Luxury hotels	15	28
Restaurant	15	5
Turnover less than 50 LAC)		
Non ac	15	12
Restaurants		
Ac with liquor	20	18
License		
5 star hotels	15	28

Source: Data collected from <https://cleartax.in/s/sac-codes-gst-rates-for-services> reproduced in Hemlata Tiwari and Shambhu Nath Singh (2018) ^[2] Goods and Service Tax: Economic Revival of India, SAGE Publications [sagepub.in/home.nav http://journals.sagepub.com/home/par.p.25](http://journals.sagepub.com/home/par.p.25)

Benefits to the exporters

Entirely pooled both the Central and States indirect taxes under GST, whole and total of input goods and services and phasing out of Central Sales Tax (CST) would decrease the cost of nearby manufactured goods and services. GST increases the competitiveness of Indian goods and services in the international market and thereby promotes Indian exports.

Development of agriculture and Industry

Goods and Service Tax provides additional relief to agriculture and industry in the form of other inclusive and larger coverage of input tax start out and service tax start out, pooling into several Central and State taxes under the GST regime and phasing out of CST. Due to the transparent and complete chain of set-offs results in widening of tax base and better tax compliance, possibly as well lead to reduction of tax burden on an average trader in industry, trade and agriculture.

Benefit to consumers

Goods and Service Tax will benefit the consumer because the final price of goods is expected to be lower because of seamless flow of input tax credit flanked by the manufacturer, retailer and supplier of services and average tax burden of companies is probable to descend; which is expected to decrease prices and lesser prices leads to more consumption. The consumption of the consumer increases; it enhances their standard of living by consuming quality food.

Promote make in India

Goods and Service Tax boosts foreign investment and promotes “Make in India” campaign by creating a single common national market for India. It has mitigated cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply and also GST harmonization of laws, procedures and rates of tax in the country. Goods and Service Tax keep away from tax on tax effect of taxes and it will make products cheaper, therefore promote the aggregate demand. Further GST promotes export and industrialized activity, it will create

further employment and enhance GDP with productive employment leading to substantive economic growth. Eventually GST facilitates in poverty elimination by the way of generating more employment and more financial resources. In addition to this efficiency, it results in neutralization of taxes in particular for exports. Thus creation of Indian products further, cutthroat in the international market and serves as an enhancement to Indian Exports and as Goods and Service Tax get better, the entire investment environment in India will apparently be of advantage to development in the states. Homogeneous CGST & SGST and IGST rates will decrease the inducement for avoidance by eliminating rate arbitrage flanked by bordering States and that between intra and inter-State supplies. Average tax burden on companies is probable to come down which is expected to reduce prices and lower prices mean more consumption. More consumption means more production hence it promotes the growth of the industries in the country. Consequently, it will create India as an industrialized center”.

Simplicity of Doing Business

Unified tax system with less immunity accompanied by decrease in variety of taxes that are at current governing our indirect tax regime will bring about simplification and consistency. Diminution in conformity costs as manifold record-keeping for a multiplicity of taxes will not be necessary. Hence there is smaller investment of resources and manpower in maintaining records. It will lead to simplified and automated procedures for different processes such as registration, returns, refunds, tax payments. All interaction shall be through the common GSTN portal, therefore, less public interface between the taxpayer and the tax administration. It will get better atmosphere of conformity as all proceeds to be filed online, contribution credits to be verified online, encouraging more paper trail of transactions. General events for register of taxpayers, reimbursement of taxes, homogeneous formats of tax return, familiar tax base, common system of classification of goods and services will lend greater certainty to taxation system.

5. Findings

The introduction of GST has brought down the tax rates on health care to zero; it will bring a lot of benefit to the low- and middle-income groups in the country. GST has made banking, insurance and telephone sectors costlier and here the customers have bitter feelings. The GST on hotels definitely benefits the low- and middle-income people because except luxury hotels others are affordable to the common-folk. Consumer satisfaction is more under GST regime due to low price on goods and service.

6. Suggestions

Banking, insurance and telephone services are nowadays considered as the basic service sectors which will play an important role in the development process of an economy. Therefore, in this area the government has to bring down the GST rate and make this sector more affordable for all sections of the economy.

7. Conclusion

The Goods and Services Tax (GST) which was introduced by the Government of India on 1 July 2017 is the biggest tax reforms in India ever since independence. It was indeed a

historic occasion and a paradigm shift as India moved towards ‘One Nation, One Tax, One Market, and one tax by amalgamation of several central and state indirect taxes into a single pool. Goods and Service Tax is expected to make Indian products more cutthroat in both the domestic and the international markets by the way of creating a hub of massive inflows of foreign direct investment than before in view of the stability it will impart to the tax regime. Simultaneously it will be transparent and easier to administer. As per the above discussion GST will boost the economy by the way of growth of service sector, agriculture and industry, it will boost export and manufacturing activity, generate huge employment and thus augment GDP with gainful employment leading to substantive economic growth. Ultimately GST will reduce poverty by way of generating further employment and more financial resources. Hence government should effectively implement the Goods and Service Tax for faster and greater development of the Indian economy in the future.

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