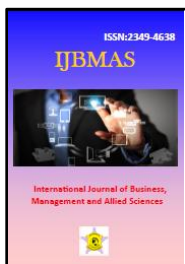


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**GST Impacts on Indian Economy: A Study**

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**ABSTRACT**

GST stands for Goods and service tax was introduced by the Government of India to replace of all the indirect taxes. the main concept of GST is to improve the economy of nation. Its a single taxation system, however the introduction of GST in the country has both the positive and negative impacts . It will helps to increase FDIs, and also overall revenue growth rate may increases, in generally GST impacts on various sectors, such as, IT, Finance, Banking services, infrastructure, and in real estates, etc, were also greatly influenced. The main objectives of the GST is to replace of existing VAT and other indirect taxes, it will solve all the complexities in the present Indian economy. So that we hope GST will certainly supports Indian economy in a strong and smart tax system for the development of Indian economy.

**Key words: GST, Indirect taxes, Indian Economy**

**Introduction**

“GST is a tax on goods and services with value addition at each stages having comprehensive and continuous chain of set of benefits from the producers/service to the providers point up to the retailers level where only the final consumer should bear the tax” The goods service tax (GST) is broad concept. which is introduced by the government of India in a move to replace of all the indirect taxes by supporting and enhancing the economic growth of a country. It’s a comprehensive tax levy on manufacturing, sale, and consumption at national level. In 2011, the constitution (115<sup>th</sup> amendment) bill was introduced in parliament to enable the levy of GST. However, the bill lapsed with the dissolution of the 15<sup>th</sup> Loksabha. subsequently, in December-2014, the constitution (112<sup>th</sup>) bill-2014 was introduced by Loksabha. The bill passed by Loksabha in may-2015 and also referred to a select committee of Rajya sabha for examination. GST will be an indirect tax at all the stages of production to bring about uniformity in all the existing tax system. On bringing into GST, all the central and state taxes amalgamated into a single tax payment. It would help to enhance the position of India in both domestic and in international market.GST would unify the multiple taxes such as excise duty and service tax at central level and VAT at state level.

**Objectives of the study:**

- To know the benefits, issues and challenges of GST
- To know the GST how it is being implemented as one nation-one tax.
- To understand the uniform system in registration, payment, and input tax credits.
- To study the cascading effect of indirect taxes on a single transaction.
- To obtain a comprehensive overview on GST, benefits and challenges of GST.

- To study the expected impact of GST on different sectors of Indian economy.

**Review of Literature:**

Grag (2014), studied on GST about the concept and features, he concluded that the GST would be powerful indirect tax to reforms in our country, because it covers all goods and services in all sectors like, industry, business including government and service sectors. He studied that, how the GST would be affected in a big, small scale units, medium, intermediaries, etc.

Rathod.M.(2017), in his research paper, he studied about "an overview of goods and service tax in India. He stated the concept of GST, advantages, and disadvantages, finally he concluded that GST is a great step towards one nation- one tax. He mentioned in his Research paper , how the GST would try to remove all the short comings of present tax structure of India in a way of great forward.

**Research methodology:**

The present study "GST impacts on Indian economy" will have explained the probable impacts of GST in different sectors, so that I have been used secondary data for collection of different materials such as , articles, reports, published books, and research papers etc. About GST. Certainly, I hope this study will reveal the highlights of challenges, opportunities and impacts, in different sectors which are affected by the Goods Services Tax.

**Positive and negative impacts of GST:**

The main idea behind introducing GST is to improve the economy of the nation, a single undivided Indian market would strengthen the economy and make a nation, powerful as well, the introduction of GST in the country has a both positive and negative impacts.

**(a). Positive impacts of GST:**

\*GST is a single taxation system in India, that will reduce the number of indirect taxes, earlier, indirect taxes were charged as central excise, VAT, service tax etc. After introduction of GST its a single taxation would cover all of those indirect taxes.

\*GST would not be charged at every point of sale, like other indirect taxes, in this away market will develop automatically.

\*The production and service cost would reduce, this will also reduce the burden from the state and central government separate taxes are levied on goods and services that will produce. With the introduction of GST all of the indirect taxes would come under a single roof.

\*According to the latest reports, the introduction of GST would help India to gain \$15 billion every year through improved exports and imports, more opportunities of employment, enhanced economy growth rate, and reduced all the burdens of central and state governments.

\*Its a corruption-free taxation system. GST would introduce corruption free taxation system.

**(b).Negative impacts of GST:**

\*According to many researches, the introduction of GST in the country would certainly impact on real estate market, this will increase in buying prices of new houses/plots by 8% and reduces buyers market by 12%.

\*GST is a confusing term, where double tax is charged in the name of a single taxation system.

\*GST levied by the government of India, however it is classified into CGST for central, SGST for states.

\*Most of the dealers don't pay central excise tax and cheat the government by simply paying the VAT. But GST will be forced to pay by tax holders.

**Impact of GST on Indian economy:**

The introduction of Goods and Service Tax on 1<sup>st</sup> of July 2017 was a very significant step in the field of indirect tax reforms in India. large number of central and state taxes amalgamated into a single tax, at the consumer point of view, the biggest advantage would be in terms of reduction in overall tax burden on goods, introduction of GST would also make Indian products competitive in the domestic and international markets.

**(a).Increased FDI and growth of revenue:** The flow of foreign direct investments(FDI) may increase, once GST is introduced, the FDIs from the foreign companies are wary coming to India in addition. As well as estimated revenue of nearly \$15 billion per annum by implementing the goods and services tax as it would promote exports, raise in employment and boost growth, over a period the dilution of the principles may see that only a part of this is accruing. It will reduce tax burden on producers and faster growth through more production, so that double taxation prevents from manufacturers producing to their optimum capacity and retains growth rate. Also there will be more transparency in the system as the customers would know exactly how much taxes are being charged and on what based. GST provides credits for the taxes paid by the producers earlier in the goods/service chain. This would bring in more and more vendors and suppliers under the purview of taxation.

**(b). GST Effects on Economic activities:** It's difficult to evaluate whether GST has positively affected on Economic activities or not. However, the Economists believe that will be on the right track with GST. In a report by The Indian Express, ICICI Bank CEO Chanda Kochhar was quoted that GST is a transformational structural reform which has multiple benefits. These benefits include the establishment of a national market, improved ease of doing business, better productivity and efficiency, and improved compliance among taxpayers in India. The GST reform package is undoubtedly a major move for the \$2 Trillion Indian economy. It's supposed to advantage of making easier to do businesses. It provides a simplified taxation scheme for goods and services, It's far from perfect, though, it's definitely worth paying attention to non-political criticisms, especially in relation to how it affects poorer Indians. So that we can estimate GST's impact will certainly effects, on Indian economy. Fortunately, there are many analysts who express positive views on the matter. With honest and efficient administration, GST may be a good move for the world's third largest economy.

#### **Overall GST impact on Indian economy.**

While analysis of the overall GST impact on Indian economy in various areas, GST implementation in India will be a huge success. It will help in improving the economy but in long run and that is called as a "Reform" it's a possibly the biggest economic reform since globalization.

**(a).changes in tax rates:** The standard rate of 12.5% for central excise, service tax, along with the residuary rate of VAT at 12.5-14.5% brings the overall rate to 25-30%,but post GST, The general rate will be 18% net gain becomes 7-12%. Most of the dealers and consumers would experience the change in tax rates.

**(b).Availment in tax credit:** GST would facilitate near seamless credit across the entire supply chain and across all states under a common tax base, under the GST law, the input tax credit (ITC) SGST to CGST. Cross utilization of credit between central and state GST would not be allowed.

**(c). Credit availment:** The credit is available under the service tax law when the invoice amount is paid within 3 months of the invoice date based on the receipt of payment on the basis of payment challans of the assessee. Under the GST credits could be availed based on the invoices of vendors of the CGST and SGST. but the onus may shift on to the assessee to ensure that the amount of the tax has deposited in the respective government treasury by the vendor. This provision would add to bring in tax discipline, but smaller business may find transaction cost increasing due to this.

**(d).GST effect on inflation:** It can be said that GST is mostly viewed as an inflationary measure. However, the revenue experts, says that consumer price inflation with GST implemented will go down by 2% by the end of 2017. In generally it is not convinced by the experts. However The fact that the tax rate on services has been raised to 18% from around 15% is already expected to raise, inflation above levels are experienced before the institution of GST. MS Mani, a senior director of Deloitte, in an interview with Forbes India, said that the inflationary effect of GST will be temporary or short-term. This is because, according to Mani, the rates have been kept close to the existing excise duty and state tax rates. For Mani, the exemption (0% rate) of consumer products for the masses and the higher (28%) taxes on those consumed by the rich will keep inflation in check. This is expected to improve the flow of input credit with GST in place. The GST regime is believed to be good for the Indian start up sector as it carries with it tax credit on purchases, a simple compliance model, increased limits for registration, and the ability to promote the free flow of goods and services. GST may stir inflation but

there's the optimistic view that the undesirable effects will not last long, and will eventually be offset by the positive impact of an improving economy.

**(e). GST Effect on consumer goods and transportation:** GST effects on consumer goods and services are in food and the other services sector. 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%. Under GST, cab and taxi rides are taxed lower, from 6% to 5%. For those who travel by air, GST is favourable 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.

**(f). Effects on entertainment and hospitality:** After GST effects as the previous tax rate of 15% has been raised to 28%. Movie tickets are similarly increasing as they are categorized under the 28% rate. For hotels, no GST are to be charged for room rates priced lower than INR 1,000. However, room rates higher than INR 5,000 get a 28% tax rate. For 5-star hotel restaurants, the rate is 18% for those that serve alcohol and 12% ,for those belongs to Smaller hotels and restaurants are only charged 5% if their annual turnover does not exceed INR 50 Lakh.

**(g). Effects on financial products and major properties:** unfortunately Insurance policies, may increases in their premiums with the implementation of GST as the tax rates have been raised for general, health, and life insurance policies. However the tax rate change on mutual fund returns under GST is mostly minimal. This is because the GST is charged on the mutual fund's Total Expense Ratio (TER). The rate is only 3% so the effect is going to be marginal. While in the service sector such as, banking services are provided by other financial service companies are subject to the rate is 18%, which is higher than the previous rate 15%. Debit cards, fund transfers, ATM withdrawals, cheque book or draft issuance, bills collections, charges on cash handling are also much affected. Even money sending services. i.e. NEFT ,RTGS.IMPS services are also affected. GST reduces under-construction property costs as the tax rate is set at 18% but this can still be lowered to an effective rate of 12% as the property builder can avail of input tax credits. On the other hand, buying a car (most models) in India can become slightly less expensive as the tax rate is fixed at 28% with an additional cess of either 1%, 3%, or 15% depending on which segment the car being purchased belongs. In contrast, investing in jewellery can become slightly more expensive because of the 3% (from 2% in most states of India) rate on gold and the 5% charged on the crafting of the jewellery.

**(h).GST effects on Real estate:** Real estate will get costlier, but will be happy to pay more because instead of paying numerous taxes like.VAT tax, service tax, cess tax, etc. GST on real estate's will extend up to 12% that is 6.5% more than the current tax. Real developers will have to face the burden of paying the tax of the unsold flats, this might be a bad for buyers as a developers may increase their cost of the property.

### Conclusion

The GST was a very significant step in the field of indirect tax reforms in India. however, when we compare to other taxes, we know so many challenges as well as advantages were clearly visible. Goods service tax(GST)is expected to provide the needed stimulation for rapid economic growth in India by transforming existing indirect taxes towards free flow of goods and services within the economy. In view of important role of India is expected to fly in the world economy, during the years the expectations of GST is not only high level with in the country, but also in neighbouring countries and in developed economies of the world. Introduction of GST would also helps in Indian products competitive in the domestic and international markets. Last but not least, this tax, because of its transport character would be an easier to administer. However, once

implemented this system, certainly holds a great promise in terms of steady growth for the Indian economy.

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