

# Impact of GST on the Indian Economy and Consumer Experience

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**Abstract:** India's biggest tax reform is now a reality. A comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1 July 2017. The concept of GST was seen for the first time in 1999. On 8 August 2016, the Constitutional Amendment Bill for roll out of GST was passed by the Parliament, followed by ratification of the bill by more than 15 states and enactment of the bill in early September.

It is important to understand that GST is not a tax concession scheme where the government has reduced the tax rates and hence all the goods and services would become cheaper once GST is implemented. Government was attempting to fix a single Revenue Neutral Rate (RNR) on the goods and services so that the total tax revenue of the State and the Central Government remain the same. However, due to practical considerations and keeping in view the social conditions of India, four GST slabs have been set at 5%, 12%, 18% and 28% for different items or services. There is also a special rate for precious metals. The rate of 18% would however be applicable for most goods and services.

**Key words:** Revenue, Tax rate, Goods and Services Tax, Indian Economy.

## I. INTRODUCTION

Government is trying to see that the new GST rates remain more or less similar to the effective tax rates of excise, service tax and VAT in the present time. Hence, the prices of most commodities would remain the same. However, the immediate impact of GST would be as following.

All the services would become more expensive immediately since the present Service Tax rate is only 15% which is now raised to 18% in GST.

Some goods would become cheaper due to lower rates levied on such items

Most goods would become more expensive since the GST rate of 18% or 24% is much more than the present VAT rates which are around 12-15%. The dealers and retailers are NOT likely to pass on this extra rate immediately to the consumer and they would profit from the increase Input Credit Tax (ICT). However, soon the consumer would reap the benefit and the prices would come down.

## II. IMPORTANT OF GST

The real benefits of GST to the consumer and businesses are long term and can be stated as following:-

### 1: Merger of Taxes

At present, there are a large number of taxes at central and state level. They shall all be merged and become one GST as;

State Levies: Vat, Luxury tax, electricity duty, Entertainment tax, and Entry tax

Central levies, Excise duty, custom duty, central sales tax, service tax, etc

### 2: One Law One Country

At present, you have multiple central laws and state laws for taxations. If you are trading your goods at all India level, you must know and follow all the different laws of India. It is due to this reason that many people avoid trading goods in different states. Once GST is implemented, India would become one market and you can trade anywhere in India hassle-free.

### 3: Increased Input Credit

At present, input credit is not available for inter-state sales of goods. This would now be available under GST regime. Thus the next tax liability to businesses would come down.

### 4: More Export Incentive

An exporter presently gets the refund/drawback on mostly the central taxes. Now they shall be able to get the refund/drawback of State taxes as well. This will boost export.

### 5: GST Network

Since all registration and return filing shall be done online, the scope of evasion shall be reduced considerably. This will boost the tax revenue and cause more development of the country.

Rate classification for goods

Exempt	5%	12%	18%	28%	28% + Cess
Food grains Cereals Milk Jaggery Common Salt	Coal Sugar Tea & Coffee Drugs & Medicine Edible Oil	Fruit Juices Vegetable Juices Beverages containing milk Jams	Kitchenware Hair Oil Soap Toothpaste Glass fibre	Air conditioner Refrigerators	Small cars (1% / 3% cess)  Luxury cars (15% cess)

Rate classification for services

Exempt	5%	12%-18%	28%
<ul style="list-style-type: none"> <li>○ Education</li> <li>○ Healthcare</li> <li>○ Residential accommodation</li> <li>○ Hotel/ Lodges with tariff below INR 1000</li> </ul>	<ul style="list-style-type: none"> <li>● Goods transport</li> <li>● Rail tickets (other than sleeper class)</li> <li>● Economy class air tickets</li> <li>● Cab aggregators</li> <li>● Selling space for advertisements in print media</li> </ul>	<ul style="list-style-type: none"> <li>● Works contract</li> <li>● Business Class air travel</li> <li>● Telecom services</li> <li>● Financial services</li> <li>● Restaurant services</li> <li>● Hotel/ Lodges with tariff between INR 1000 and 7500</li> </ul>	<ul style="list-style-type: none"> <li>○ Cinema tickets</li> <li>○ Betting</li> <li>○ Gambling</li> <li>○ Hotel/ Lodges with tariff above INR 7500</li> </ul>

Only few goods and services are mentioned here.

GST rate on pearls, precious or semi-precious stones, diamonds (other than rough diamonds), precious metals (like gold and silver), imitation jewellery, coins – 3%

GST rate on rough diamonds – 0.25%

*What GST brings with it?*

GST is a destination-based tax that replaces the earlier Central taxes and duties such as Excise Duty, Service Tax, Counter Veiling Duty (CVD), Special Additional Duty of Customs (SAD), central charges and cesses and local state taxes, i.e., Value Added Tax (VAT), Central Sales Tax (CST), Octroi, Entry Tax, Purchase Tax, Luxury Tax, state cesses and surcharges and Entertainment tax (other than the tax levied by the local bodies).

It is a dual levy with State/Union territory GST and Central GST. Moreover, inter-state supplies would attract an Integrated GST, which would be the sum total of CGST and SGST/UTGST.

Petroleum products, i.e., petroleum crude, high speed diesel, motor spirit, aviation turbine fuel, natural gas will be brought under the ambit of GST from such date as may be notified by the Government on recommendation of the Council. Alcohol

for human consumption has been kept outside the purview of GST.

A well-designed GST in India is expected to simplify and rationalize the current indirect tax regime, eliminate tax cascading and put the Indian economy on high-growth trajectory. The GST levy may potentially impact both manufacturing and services sector for the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales, and pricing.

### III. INTEGRATED APPROACH

GST is an organization -wide transformational change that will impact the entire value chain of operations, including procurement, manufacturing, distribution, warehousing, sales and pricing.

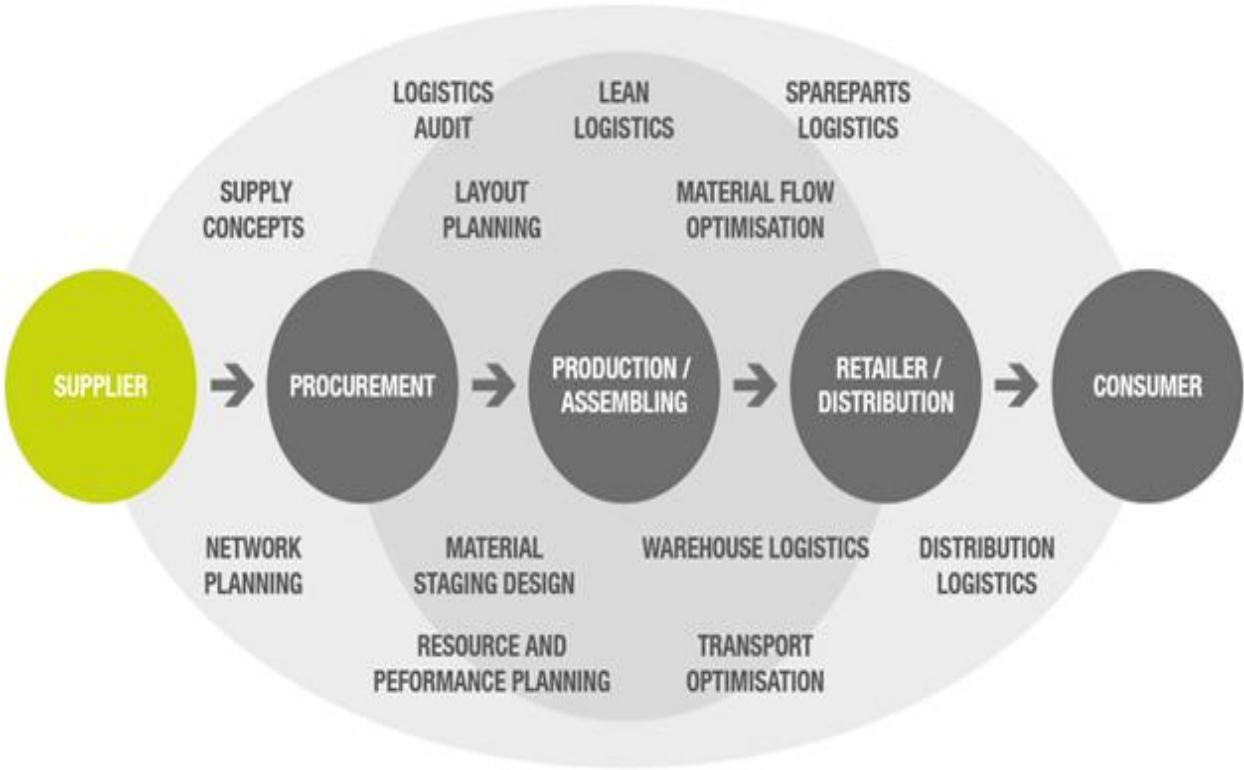
It has subject matter experts in goods and service tax, accounting, supply chain, project management, and IT across sectors providing thought leadership and advice on GST best practices. Our multi competency teams from Tax and Advisory with expertise on accounting standards/ principles, sector and functional understanding will facilitate companies to comply with statutory changes, while supporting in process readiness

### IV. BUSINESS IMPACT

*GST Ecosystem*



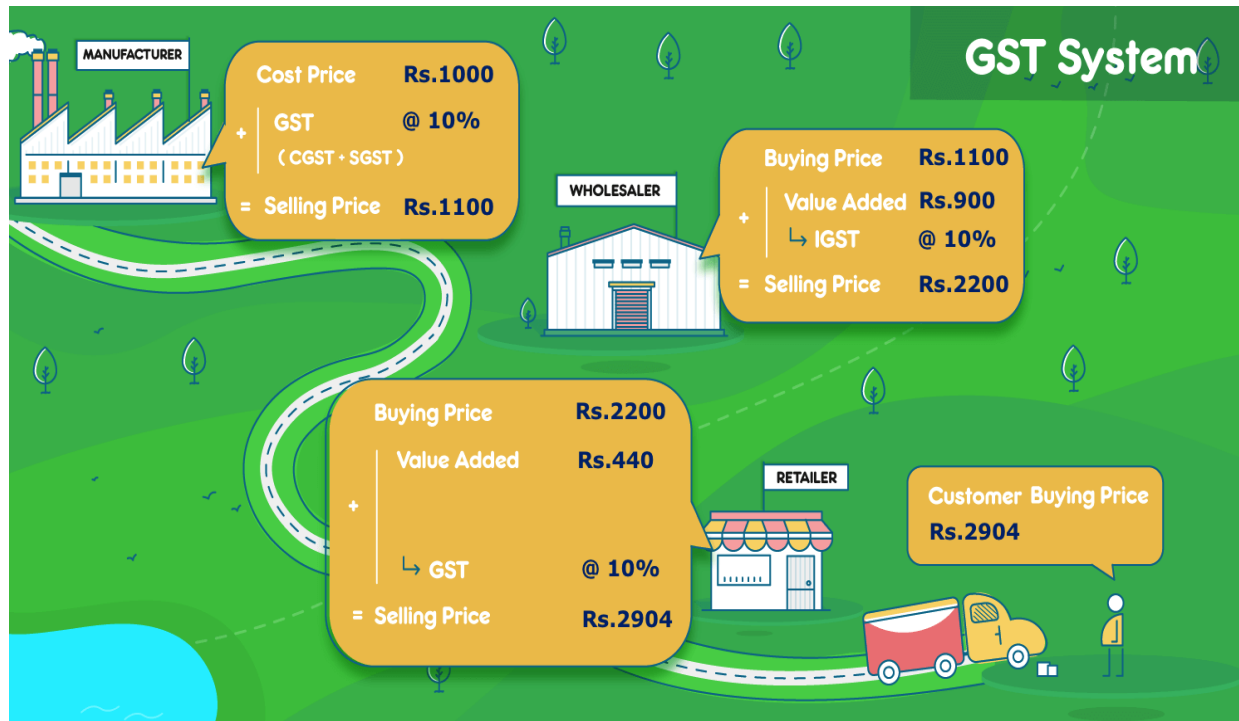
*Consumers through various services*



## V. BENEFITS OF GST

GST has been envisaged as a more efficient tax system, neutral in its application and attractive in distribution. The advantages of GST are:

- Wider tax base, necessary for lowering the tax rates and eliminating classification disputes
- Elimination of multiplicity of taxes and their cascading effects
- Rationalization of tax structure and simplification of compliance procedures
- Harmonization of centre and State tax administrations, which would reduce duplication and compliance costs
- Automation of compliance procedures to reduce errors and increase efficient



*Here are GST impacts on Indian Economy and Consumer Experience:*

GST will remove cascading effect of taxes imbedded in cost of production of goods and services and will provide seamless credit throughout value chain.

- GST will facilitate ease of doing business in India.
- Electronic processing of tax returns, refunds and tax payments through 'GSTNET' without human intervention, will reduce corruption and tax evasion.

## VI. CONCLUSION

The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies

created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime.

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