

## Goods and Services Tax: Impact and Implications hotchpotch of Industries in Indian Economy

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**ABSTRACT:** GST that is Goods and Service Tax is the latest kind of Indirect Tax which is proposed to be in force from 1st July, 2017 which is already in force on many countries around the world and they all were considering it as their sales Tax system. The GST will be the levied on the manufacture, sale and the consumption of goods and services in India. It is said to be the biggest form of reform in the indirect taxation aspect ever since 1947. The council of the GST will be headed by the Union Finance Minister that is currently Arun Jaitley. The main purpose of GST is to bring about the single tax system for the manufacture and the sale of goods at the both central and the state level in the country. The GST is mainly implemented to remove all other taxes like VAT (Value-Added Tax), Excise duty and Sales Tax. The Tax will be very much useful for the consumers in the aspects of payment of Taxes that is, we all have to pay separate tax at state level and at central level for the goods and services purchased and after the GST there will be only one tax to be paid for the goods and services consumed which is the Goods and Services Tax (GST). This paper brings out about the overview of the concepts of GST and its impact and implications on the various Industries in the Indian Economy. Through this paper we can be in a position to understand about the concepts, objectives, impact and the implications of the Goods and Service Tax in India.

**KEY WORD:** Indirect Taxation; Goods and Service Tax; Marketing; Structural Equations.

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Date of Submission: 06-06-2020

Date of Acceptance: 21-06-2020

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### I. INTRODUCTION AND LITERATURE REVIEW

GST is the crucial form of Indirect Taxation which is said to be the indirect taxation reform ever since our Independence. The GST is said to bring about the economic integration said by our Union Finance Minister Arun Jaitley during the Budget speech at 2016. The Goods and Service Tax is levied on the manufacture, sale and consumption of the goods and services. Through the implementation of GST, all other taxes like Value Added Tax, Sales Tax will be removed and a uniform tax system on goods and services will be followed.

Taxes are the only means for financing the public goods because they cannot be priced appropriately in the market. They can only be provided by governments, funded by taxes. It is important the tax regime is designed in such a way that it

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Introducing GST and Its Impact on Indian Economy does not become a source of distortion in the market or result in market failures. The tax laws should be such that they raise a given amount of revenue in an efficient, effective and equitable manner. Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development. GST stands for Goods and Services Tax. It is a domestic trade tax that will be levied in the form of a value added tax on all goods and services -in practice with some exemptions. A value added tax exempts all inputs including capital goods. Hence, it becomes a general tax on domestic consumption. It is a convenient and economically efficient way of taxing consumption. If it is levied at a single rate and there are only very few exemptions, it becomes a proportional tax on consumption. In order to ensure that the tax burden is distributed according to the consumption of different individuals, it must be levied on the basis of the principle of destination, that is to say that the tax on a good should go to the state in which the concerned consumer lives. This automatically takes place if the tax is levied at only the central level, or if the state is a unitary one with only one level of taxation. In a federation, there are special problems to be solved if GST is to be levied at the level of the states as well as the federal government.

## **1.2 Research Objectives**

This study is based on the following objectives.

1. To study about the concepts of GST.
2. To study about the need and the Importance of the Goods and Service Tax to the Indian economy.
3. To study about the impact of GST on Various sectors in Indian economy.
4. To provide suggestions and recommendations regarding GST.

## **1.3 Research Methodology and Data Analysis**

In The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax..

According This study is descriptive in nature and it used the exploratory technique. The data for the study were gathered from the secondary sources such as journals, articles published online and offline on various newspapers and websites.

## **1.4 Legislative History of GST Bill in India**

The GST Bill was initially proposed by the committee under the then Prime Minister Atal Bihari Vajpayee during the year 2000 which headed by Asim Dasgupta, the Finance Minister of West Bengal. Later on 2004, The Kelkar Task force which was instrumental in the implementation of Fiscal Responsibility and Budget Management Act (FRBM) Act, 2003 suggested about the implementation of GST under the principle of VAT.

On 2006, the then Finance Minister of Union P. Chidambaram, announced the target date for the implementation of GST in India as 1st April, 2010. During 2007, an empowered committee was formed by the finance ministers of each state to submit the roadmap for GST and they have submitted it. On 2008, that Empowered Committee submitted a report entitled "A Model and Roadmap for Goods and Services Tax (GST) in India" containing the roadmap for the implementation of GST in India. They also made some suggestions with regard to that report. Later on November 2009, the EC submitted the first paper and conducted a debate with regard to gather the opinion of all stakeholders.

In 2010, the then finance minister Pranab Mukarjee assured that effective implementation of GST Bill on April 1, 2011. And on 2011 the 115 Amendment Bill was passed in Lok Sabha in order to implement the GST Bill for certain goods and services and it was sent to the standing committee. In 2013 the standing committee submitted its report. But later it was lapsed due to some political discrepancies.

On 2014, Union Finance Minister Arun Jaitley has passed a 122 Amendment on December 17, 2014. Later, on the budget the Finance Minister said that the Bill will be passed on 1st April 2016, and which could not happen and as of during the budget of 2016, Arun Jaitley said that the GST bill will be implemented through the One Hundred and One Amendment Bill officially known as The Constitution (One Hundred and One) Amendment Act 2016 will be in force from 1st July, 2017.

## **1.5 Concept Overview - GST at a Glance :Goods and Service Tax-Explained**

The GST is the proposed Indirect tax system which is levied on the manufacture, sale and the consumption of goods and services. It will replace all the indirect tax systems such as sales tax and value added tax. The main purpose of GST is to bring about the single uniform system of taxation in the manufacture, sale and the consumption of goods and services in India.

The GST is said to reduce the level of Tax evasion and the corruption and it also reduces the tax burden of the public.

## **1.6 Objectives of GST**

1. To remove the cascading effect of taxes that is through this Single taxation system (GST) the tax on taxes will be removed easily.
2. To reduce the Tax evasion and Corruption.
3. To bring about the consumption based tax instead of manufacturing.
4. To absorb various Indirect taxes and to bring a single system of taxation.
5. To remove the prices of goods by having a uniform system of taxation over the country.
6. To increase the GDP by the exclusion of cascading effects of Taxation.

## **GST Model**

The GST model consists of three components or three different varieties of GST. They are as follows.

- Central GST.
- State GST.
- Dual GST.

1. Central GST: Goods and Service Tax to be levied at the centre.
2. State GST: GST levied at the state.
3. Dual GST: GST to be levied at the State and Centre concurrently.

### 1.7 Proposed GST Rate

The rate of the proposed Goods and Services Tax for the certain goods and services are laid down by the government which is as follows.

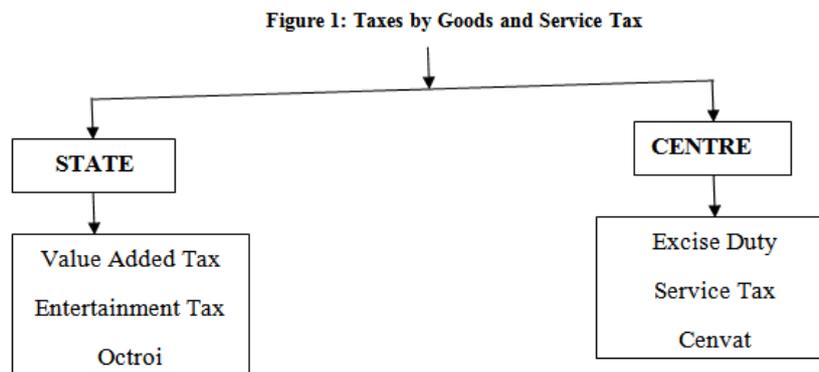
1. For Goods the Total GST rate is 20 % in which 12% of the tax is levied by Central while remaining 8% will be levied by the state.
2. For Services the Total GST is 16% out of which 8% is for the Central and 8% is for the state.
3. For the essential Goods the GST is levied at 12% in which is divided equally that is 6% for Centre and 6% for state.

Currently, it is collected in the form of VAT which is 26.5% that is Central Value Added Tax is 14% and State VAT is 12.5%.

The above mentioned percentage of Goods and Service Tax is just a proposed value it may subject to change as per the revisions make up by the Executive Committee and the government.

### 1.8 Taxes those Absorbed by GST

The Proposed Indirect Taxation System of GST is likely to include the following taxes in Centre and at state level, they are as follows (**Figure 1**).



From **Figure 1**: Taxes by Goods and Service Tax.

### Products not covered under GST

The Goods and Service Tax does not include certain products they are as follows.

- Petroleum Products.
- Alcohol.
- Tobacco Products.

### Need and Importance for GST

- To bring about the uniformity in the System of Indirect taxation.
- To remove the cascading effects of Tax.
- To bring about the economic integration.
- Generally, the Taxes are imposed at various rates among various states in India.

So, there is a huge loss of revenue to the central as well as state government. Through GST a uniform tax rate is followed all over the country and so that there will no such loss of revenue.

- Reduces complexities and increases more number of economic transactions.
- The GST brings about a competitive pricing. As all the products are taxed uniformly across the country, the various forms of indirect taxes will remove and which in turn will reduce the tax burden of the consumers. This will reduce the prices of the products and increases the consumption which in turn will be more beneficial for the companies.
- Generally, the main aim of GST is to bring about the single tax system which will reduce the cost of production for the manufacturers, So that it will be a big boost for those producers who made their products at lower cost and involves in international trade that is exports.
- As it is the Single Tax system, the tax burden for starting industrial units will be reduced; As a result when more industries were created it will ultimately result on more employment.

- Through GST the government receives more amount of Tax revenue which will be utilised for the services to the public.
- As there is more transparency in the system of GST and since it is a system of single taxation, the chances of corruption will be very low.
- The Country is said to have one market economy, as through GST the number of numerous markets divided by various tax will be avoided.
- To avoid the Tax burden of the common consumers and the public by making it into a single tax system.

#### Impact of GST on Various Sectors

The GST is said to have a positive impact on the economy as a whole. But when it comes to sectoral-wise classification, the GST have both positive as well as negative impact on each of the sectors. Here are some sectors given and its GST is given below.

**Technology (Information technology and ITeS):** The GST system of indirect taxation has made the duty on the manufacturing goods from 14% to 18-20%. As a result, the prices of the software products will be at high which will give either a neutral or slightly negative impact on the Technology Sector as a whole. But they will be benefited through the reduction of tax and benefits of other industries and can somewhat mitigate it.

**Telecommunications:** The telecommunications sector is presently paying the tax at the rate of 14% which is expected to be increased during the GST regime. And, it is assumed to be around 18% which will be expected to be passed over to the customers and this gives a picture that GST will adversely affect this sector.

**Pharmaceuticals:** Presently, the Pharma companies are paying taxes around 15-20%. Since, there is no clear picture of tax treatment for Pharma if it is less than 15% it would be a positive impact on the Sector but if it is above 15% then it will cause some slight negative impact.

**Automobiles:** The Automobile industry is currently paying a tax rate of a range between 30-45%. And it is expected that after GST the rate will be around 18% which will be a huge positive for the automobile industry and which will be profitable to both the Manufacturers/dealers and the ultimate consumers. The standard and the social status of the consumers get uplifted. There will be a huge boom in the Automobile Industry as a result of implementation of Goods and Services Tax.

**Financial Services:** The Financial services such as banking, Stock Trading firms are currently paying 14.5% as VAT which is likely to be increased to 18 to 22% in the near future under the GST regime. And the services are likely to be costlier.

**Textiles:** Currently, the Textile industry is paying the tax at the rate of nearly 12.5% plus surcharges and which varies upon the MRP of the products. Since there is no clear idea about the tax rate of this industry under the regime of GST it is expected at the rates of 15% which will be having a moderate impact on the industry.

This moderate impact may either be neutral or slightly negative when compared to the other present system of taxation. But they will be benefited through the reduction of cost in transportation, savings etc.

**Media and Entertainment:** The tax rate for the Media is around 22% as of now and since the authority for the levy of taxes remains to be the right of the local bodies, it is expected that the cinema fares are expected to come down after the GST regime and the cost of DTH and cable television services are likely to become costlier. There is somewhat either neutral or slightly negative impact of GST on the Media and Entertainment Industry.

**Consumer durables:** The current of tax rate of this industry is around the range between 23-25%. And under the GST regime it is considered to be lower around 15-18% which will be positive impact to this industry.

**Cement:** The cement industry currently pays the tax at the rate of 25% currently. And, after the GST regime, it is expected to be fixed at the rate of 18 to 20%. This will be a major relief for the companies of that industry. And the logistics tax also is to be reduced; it would be a double benefit for all the industries involved in manufacturing.

**Real estate:** Real estate contributes about nearly 7.3% of India's GDP and it is the largest generator of employment immediately after IT. Real estate is said to get a positive impact under the GST regime immediately after its implementation. It is expected that since there is a single system of Taxation under GST, all other forms of indirect taxation will be removed which results on reduction of property prices and the cost of construction. Thus, we can have a positive impact of GST on the Real estate sector.

### **1.9 Problems in Implementing GST**

There are certain challenges and problems in implementing the GST in India. Some of them are as follows.

1. There is no such clear picture about the GST both to the government and to the general public.
2. There is no cooperation between the Central government and the state government in implementing the GST. Even though, if implemented the levy of Tax remains on the part of the state.
3. The State government generally refuses to accept it. As the states levy taxes on the Destination principle i.e. (the state in which the product or service is sold or rendered), so in order to lose the revenue they were avoiding it.

4. The Revenue Neutral Rate (RNR) is the key factor responsible for the effective implementation of GST. But under GST, we could not say that the revenue remains same as that of the current system of taxation.
5. Loss of revenue to the state. If we buy any product the VAT @ 14.5% is included towards it, after the GST regime, there will be no VAT then it results on the loss of revenue to the state.
6. Even though the government said that they will pay the loss of revenue to the state government, it will be again imposed on the general people in some other forms.
7. It involves massive cost on the training of the staff of the Taxation department.
8. Lack of political support. The Bill must be passed in the Rajya Sabha for its successful implementation.
9. IT is the backbone of GST which would connect the various stakeholders through the Virtual platform. So, government must show keen interest on the development of portal for GST and successfully achieves it.
10. There is a large debatable question in implementing the GST such as whether the small entrepreneurs and small firms will be helpful through the GST regime?, whether the government and the Public ready for such a change? Are some of the questions which are highly in confused dilemma?

#### **1.10 Suggestions and Recommendations**

- To provide literacy and awareness about the GST.
- Effective spending on efficient Tax administration staff.
- Well maintenance and frequent follow ups of GSTN (Goods and Service Tax Network) portal for better relationship with various stakeholders.
- In order to avoid the unnecessary loss of revenue to the state government, the central government may think about the considerable percentage of GST which will be helpful for all stakeholders of GST.
- Consent from all states and suggestions from every state for betterment of GST and the source of Tax revenue.
- The government should take care about the RNR which should not affect the tax revenue to any government either central or state.
- The loss of Tax revenue should be managed and compensated properly through proper diversification of funds without burden to anyone.
- The Central and the State government should be in proper understanding and cooperative with each other for the successful implementation of GST.

#### **1.11 Limitations of the Study**

1. The study is completely based on the secondary sources.
2. No Quantitative data were collected.
3. The Study is not based on the research.

## **II. CONCLUSION**

The GST is very crucial tax reform since independence of India, so it must be better handled with utmost care and analyzed well before implementing it. And, the government both central and state have to conduct awareness programmes and various literacy programmes about GST to its various stakeholders.

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Mrs. Nallala Roopa. "Goods and Services Tax: Impact and Implications hotchpotch of Industries in Indian Economy." *International Journal of Business and Management Invention (IJBMI)*, vol. 09(06), 2020, pp 08-12. Journal DOI- 10.35629/8028