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

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Abstract

The enforcement of Goods and Services tax was for long -term benefit. There were very few sectors that received an immediate benefit from the implementation of Goods and Services Tax (GST). The long-term benefit requires the patience of citizens. Where one sector in the country faces a positive aspect, on the other hand, the other sector faced the negative aspect. It is very important to know how and to whom the Goods and Services Tax (GST) had impacted. In a country where the population is 133.92 crores, [Source: World Bank, United States Census Bureau], implementation of a new tax regime was not less a big hurdle. It was required that the authority first understand the concept then it will be easy for the citizens to implement the concept of "One Nation One Tax".

Keywords: Goods and Services Tax, Indian Economy

Introduction

GST is a consumption-based tax levied on sale, manufacture and consumption on goods & services at a national level. This tax will be a substitute for all indirect tax as levied by state and central government. Exports and direct tax like income tax, corporate tax and capital gain tax will not be affected by GST.

Advantages of GST

1. Eliminate cascading effect of tax
2. Higher threshold for registration
3. Composition Scheme for small business
4. Easy online procedure
5. Lesser complications
6. Improved efficiency of logistics
7. Regulated unorganised sector

Disadvantages of GST

1. High cost of software
2. Increased Operational cost
3. SME will have higher tax burden
4. Entire Online system

Objective of the Study

To study the impact of GST on various sectors of Economy viz: Primary, Secondary and Tertiary sector.

Impact of GST on Various Sectors

1.**Impact of GST on Primary Sector**

(a)**Agricultural Sector**

GST is essential to improve the transparency, reliability and timeline of supply chain mechanism. A better supply chain mechanism would ensure a reduction in wastage and cost for the farmers/retailers. GST would also help in reducing the cost of heavy machinery required for producing agricultural commodities. Under the model GST law, dairy farming, poultry farming, and stock breeding are kept out of the definition of agriculture. Therefore, these will be taxable under the GST. 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 increased to 12%. The same impact is on Tractors. Waiver on the manufacture of Tractors is removed and GST of 12% has been imposed. This is beneficial as now the manufacturers will be able to claim Input Tax Credit

India's milk production in 2015-16 was 160.35 million ton, increased from 146.31mt in 2014-15.Currently, only 2% VAT is charged on milk and certain milk products but under GST the rate of fresh milk is nil and skimmed milk is kept under 5% bracket and condensed milk is going to be taxed at the rate of 18%. Tea is probably one of the most crucial items in an Indian household. The price of tea might also increase due to the tax rate of 5% under GST rate from the current average VAT rate of 4-5% with Assam and West Bengal with the exception of 0.5 and 1%.

2. Impact on Manufacturing Sector

(a)Iron and Steel Industry

Three types of taxes are applied or imposed on the manufacturing of iron and steel. Those taxes are: -

1. 12.5% of Excise Duty
2. 5% of the Average Value Added Tax (VAT)
3. 2% Central Sales Tax (CST)

There is a total of 19.5% net tax which is imposed upon iron and steel. If there is an article which is manufactured of iron and steel are charged at the rate of 19.5%. The rate of the tax charged is similar to the tax rate for manufacturing iron and steel. In Punjab, the Value Added Tax (VAT) is 2.5% for the substances or commodities which are of iron and steel. Thus ,the pattern of tax charged is not the same in whole India.

Goods and Services Tax (GST) has a positive impact on the iron and steel and material made up of these. Kitchen utensils that are useful in day to day life become cheaper than the previous. Utensils like pan, stainless steel cooker and many more are now charged with 12% of Goods and Services Tax (GST). It is charged 7.5% less than the current tax laws. There are benefits for all the steel-related companies as there is a 5% low tax rate on all the large inputs used by them under the Goods and Services Tax (GST). These inputs are iron ore, coal, etc.

All the industries relating to Iron and Steel are getting benefits with the introduction of Goods and Services Tax (GST). There is an expectation that it will help in furthermore benefits by reducing or lowering the input tax and logistics.

3. Impact on Service Sector

(a) **Banking Sector**

With the imposition of Goods and Services Tax (GST), the banking sector hasbecame more expensive. Previously, the tax on all the services relating to banking was 15% but after the enforcement of Goods and Services Tax (GST), the tax rate on all the banking service was increased upto18%.

After the implementation of the Goods and Services Tax (GST), every bank is required to obtain a separate registration for all the branches within them. Before Goods and Services Tax (GST), all the employees working in the banks were getting out of their relief mode because there was a concept of "single centralized registration" for all the branches of banks. It was a complex task to be done in a country like India because there were excessive numbers of banks having a more excessive number of branches prevailing in India. The transaction between banks was not free

After the implementation of Goods and Services Tax (GST), the money transaction, whether it was internally or externally, between the two different banks is done by imposing the tax. Before the GST, it was free. Under Goods and Services Tax (GST), there are two different kinds of taxes prevailing in India. First, Central Goods and Services Tax (CGST) and the second is State Goods and Services Tax (SGST). CGST is the domain of Government and SGST is the domain of State Government. With the advent of these two types of Goods and Services Tax (GST), the whole code or protocol of the banks and relating sectors are altered in a stipulation of the service which they provide to all consumers.

Every consumer or customer having their account in any bank has been offered a "point of supply identification". This helps the customers in transfer of money in any part of India. If a person has an account in a remote area, he will easily transfer money with the limitation of amount subjected to rules stated by Reserve Bank of India (RBI). Before the imposition of Goods and Services Tax (GST), the input tax credit was not granted in accordance with the Central Value Added Tax (CENVAT) protocols or code. However, after the Goods and Services Tax (GST), the input credit tax is acknowledged to all the banks which will ultimately reduce the evasion of tax when there are external supply funds.

After Goods and Services Tax (GST), the banking sector has approach in the whole of India and even in the acquaintance countries for the purpose of ensuring the continuous and steady business. The sudden growing and spreading of business will lead to increase in claim of funds. And as the demand for funds will increase, this will ultimately benefit the banks because of expansion in the number of transactions.

Every bank gives a variety of services to all of its customers or consumers such as credit card, debit card, internet banking, etc. When Goods and Services Tax (GST) came into force, there was an amendment in the rules and regulations relating to the banks and this emerged as the upgradation of all e-system including the Automated Teller Machine (ATM) and all the systems related to the transaction as demanded by the department of IT.

4. Real Estate

The imposition of Goods and Services Tax (GST) has some positive impact on the property and real estate. Property buyers are in profit due to the Goods and Services Tax

(GST). 12% Goods and Services Tax (GST) charges of property value are liable on all under-construction properties. It does not include stamp duty and the charges on the registration. Previously this provision was applied in the properties which are prepared or ready.

There is an increase in profit for the builders and developers due to the input tax credit. This will additionally the profit to homebuyers. According to them changed tax scheme, the under-construction properties i.e. flats and buildings will be charged 18% Goods and Services Tax (GST) in which 9% will be State Goods and Services Tax (SGST) and 9% will be Central Goods and Services Tax (CGST). The government has the power to deduct the land value equal to the 1/3rd of the total amount which is charged by the builder. It will make the efficient rate of tax as 12%. **Positive Impact on Buyers** Goods and Services Tax (GST) has some positive impact on the prices of property. It makes the tax system easy for all the buyers. Before Goods and Services Tax (GST), buyers were accountable to pay the taxes which depends upon the property's construction status and the state in which the property is located.

Buyers were also liable to pay the Value Added Tax (VAT), stamp duty, service tax, and registration charges when they bought the under-construction property. But when they buy the property which was ready or completed, they are liable to pay registration charges and stamp duty. The state has the power to levy the stamp duty, Value Added Tax (VAT) and Registration Charges and all the figures of tax differ from state to state.

Centre has the power to levy the service tax and it was charged upon the construction. This makes the tax scheme very much complicated for all the buyers, but Goods and Services Tax (GST) has made this simpler.

Under Goods and Services Tax (GST) regime, tax is charged upon all the under-construction properties are at 12% of the value of the property. It does not include the registration charges and stamp duty. There was no imposition of indirect tax on the sale of property which is ready-to-move that is why there is no applicability of Goods and Services Tax (GST) on sale of the ready-to-move properties.

Positive Impact on Builders

Before the enforcement of Goods and Services Tax (GST), a developer or builder had to pay Value Added Tax (VAT), Central Excise Duty and Entry taxes which was the state domain. The state was collecting those taxes on the cost of construction material. Developer and the builder were also liable to pay the tax at 15% for services such as approval charges, architect fees, labour, legal character, etc.

After the Goods and Services Tax (GST), there was not much variation in the construction costs. In addition, logistics reduced cost will

Table 1 : Comparison of Value Added Tax & Goods and Services Tax on Different Materials

Sr. No.	Substance or Material	Value Added Tax (VAT)	Goods and Services Tax (GST)
1.	Iron pillars and iron rods	20%	18%
2.	Fly ash bricks and Sand lime bricks	6%	5%
3.	Cement	20 to 24%	28%
4.	Ceramic tiles, plaster, wallpaper, wall fittings, paint	20 to 25%	18%

lead to a lessening of expenses. To increase the profit, the input tax credit is helpful.

Conclusion

The aim of the government is to bring India into an umbrella of one tax promoting the "One Nation One Tax" system. Implementation of Goods and Services Tax (GST) substituted the regime of Value Added Tax (VAT) in India. It merged all the indirect taxes which was prevailing in the country during Value Added Tax (VAT) regime. Imposition of Goods and Service Tax (GST) was a big task in a country like India where new changes are not easily accepted. It was a complex system to understand at first but later it is coming out as a long -term benefit for the country. There are the various sectoral impact of Goods and Services Tax (GST). Some sectors show a positive impact while others show a negative impact. Due to a long- term benefit scheme, there is a less immediate positive impact on Indian society and economy. However, it is expected that there is an expectation of the growth of Indian Gross Domestic Product (GDP). The only thing required is to have patience and continuous following of rules and regulations for uplifting the country's economy.

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