

GST Rollout in India and Its Impact on Economy: A Conceptual Study

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Abstract

In previous scenario of Indian tax structure, various direct and indirect taxes paid by the person to government. To overcome this taxation burden, Central Government has decided to make one tax policy i.e. Goods and Services Tax (GST). It is an indirect tax which levied by the state and central governments of India. After the one hundred and twenty second Amendment Bill, it is introduced in the Constitution of India. It is a biggest tax reform since 1947 in Indian Tax System on the supply of goods and services. The GST has bound together 17 indirect central and state taxes as VAT, Luxury Tax, Tax on lottery, betting and gambling, Entertainment tax, Purchase tax, State cess, Electricity duty, Central Excise Duty, Commercial Tax, service tax and tax on advertisement into a unified tax structure. The main purpose of GST is to compile all these different taxes and levied a single comprehensive tax. This paper is through light on the impact of GST on Indian economy by change in price of different sector products.

Keywords: GST, Indirect taxes, Central tax, State tax, Integrated GST and Indian economy

1. Introduction

Goods and Services Tax (GST) was first introduced in 2007-2008 during the budget session. On December 17, 2014, the Union Cabinet Ministry approved the proposal of GST through Amendment Bill. And on 19 December 2014, the passage of 122 Amendment Bill was presented in Rajya Sabha. Kaur (2016) discussed in study that all the parties are in favor of GST except only one AIADMK backed the bill. The GST is governed by GST council and Chairman Finance Minister of India. Kour et al. (2016) described various tax rates as 0%, 5%, 12%, 18% and 28% applied under GST. But only 0.25% rate is levied on rough precious and semi precious stones items and 3% on gold.

This GST is to be in force from 1st July 2017 in the Central Hall of the Indian Parliament. It is implemented on goods and services based upon “destination principle” where actual consumption takes place. On the basis of current tax structure, there is lot of scope for business person to overlapping or doubling the taxation at every step of sale or purchase of goods and services. This one unified tax rate GST helps to eliminate this fraud instead of charging different taxes at different steps. Now, Indian Govt. is opting dual system of GST as Central Goods and Service Tax (CGST) and State Goods and Service Tax (SGST).

With the implementation of GST, it is charged on value added goods and services at each activity of sale or purchase. The manufacturer or wholesaler or retailer is liable to pay applicable rate of GST but will claim back through tax credit mechanism. But the end person consumer has bear this tax in many aspects as shown in figure given below. This is the case when GST is a unified tax structure applied to each stage and collected at point of sale.

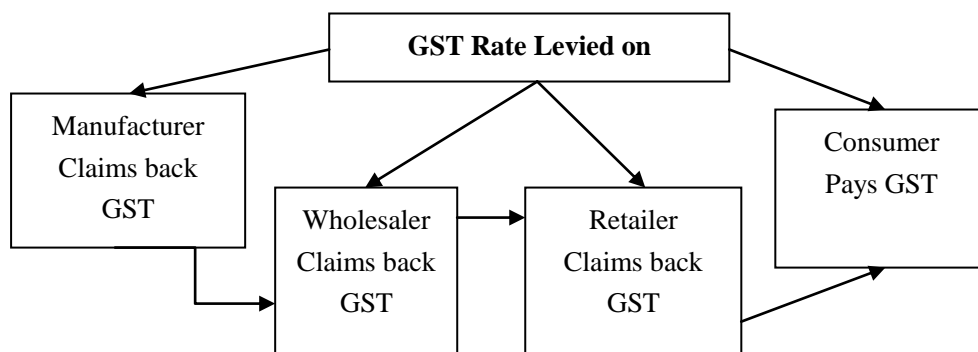


Figure 1. GST rates description in the above figure

Source: Kaur (2016).

Now the GST is applied on place of consumption of goods and services based on destination principle. It can apply on intra state supply and consumption of goods and services, inter-state movement of goods and import of goods and services.

Indirect Taxes	GST	Goods/Services Produced & Consumed in same State	Goods/Services Produced & Consumed in different States (Inter-State)	Goods & Services Exported	Goods & Services Imported
Excise Duty	CGST	CGST rate + SGST rate Levied	Integrated GST	GST not Applicable	CGST rate + SGST rate Levied
Service Tax					
Custom Duties					
Central Sales Tax					
State Sales Tax	SGST				
Entertainment Tax					
State VAT					
Professional Tax					

Figure 2. Description of indirect central and state taxes subsumed in GST

Source: <https://www.relakhs.com/wp-content/uploads/2015/01/Applicability-of-GST-centre-state.jpg>

This figure has described different indirect taxes subsume into a unified tax structure as CGST, SGST and Integrated GST on imported of goods and services.

2. Need of the Study

Due to the application of new tax structure GST in Indian economy, now India has to understand the concept of GST and its benefits for the Indian economy and changes in prices on products while deal in market. It has rolled out on 1 July 2017 and makes many changes in tax slabs for purchase and sale of goods and services. The five tier tax rate structure has implemented on Indian economy. This study will help to understand the gap between before and after implementation of GST in different sector products.

3. Research Methodology

3.1 Objective of the Study

- To understand the impact of GST on Indian economy by post GST.
- To identify the gap between previous and GST tax structure on prices of different sector products.

4. Analysis and Results

4.1 Impact of GST on Prices of Different Sector Goods and Services

India has applied most powerful tax reform GST on goods and services. Leemput and Wiencek (2017) discussed in paper that fourteen indirect central and state taxes finally emerge as a multitier tax structure and the rates are 5%, 12%, 18% and 28% but on food grains, cereals and vegetables has levied zero tax rate under GST. After the application of GST, the final prices of goods are gone lower, provide more employment opportunities, boost up foreign investment and come down the average tax burden on the firms. The products are

Mobile Phones, electronic Goods, Medicines, Small SUV Cars, Cars for handicapped, Cement, Renewable energy devices, contact lenses and Processed food items on which tax burden come down.

Table 1. Product tax rates before and after implementation of GST

Product	Previous Rate %	GST Rate %
Mobile Phone	20.02	12
Footwear	14.41	5
Ready-made Garments	18.16	12
Cars for handicapped	20-22	18
Medicines	11	5
Renewable Energy Devices	17-18	5
Iron Ore	17-18	5
Music Instruments (Handmade)	0-12.5	0
Processed Food	14	12
Butter	5.66	12
Television	24.39	28
Footwear (Above Rs. 500)	14.41	18
Wristwatch	20.64	28
Baby Food	7.06	18
Diamonds and Jewellery	3	12
Cars	30-44	18
Small Cars (Petrol)	25-27	28+1(GST compensation Cess)
Services	15	18

Source: EY, GST Council.

The services are Renting of motor cab, Tour Operators services, Supply of packed food or drinks in AC 5-star Restaurants, Diamonds, Jewellery, Readymade Garments on which tax burden will go up. Rail transport and economy class air travel has attracted GST taxed at 5%. Construction of buildings, complex and civil structure has taxed at 12 %. AC 5-star hotel services are charged at 28% GST slab rate.

But the products are Meat other than frozen, milk, dairy products, eggs, salt, fresh fruits, vegetables, non branded cereals, flour, organic manure, judicial, non judicial stamp papers, post cards, non precious metal bangles, agriculture implements and hand tools charged at zero GST rate.

The consumer durable sector is considered as inventory heavy sector and taxed at 26 to 31 percent but post GST, this has placed under 28 percent slab rate. This sector has one of the most positively affected sector. The automobile sector, FMCG sector, Logistics sector have also positively impacted after implementation of GST. The Infrastructure sector has reduced

the litigation cost by post GST. But the Pharmaceuticals sector has affected negatively and increase in their prices due to tax rates.

5. Conclusion

At the end concluded that there is fall in the prices of some commodities are lower down but on the other side, some commodities and services increase the prices. Fourteen indirect central and state taxes finally subsumed as a single tax structure and the rates are 5%, 12%, 18% and 28% but on food grains, cereals and vegetables have levied zero tax rate under GST. It has observed from the study that all the sectors are affected with the roll out of GST. The consumer durable sector has affected hugely at 28 % slab tax rate implied by the post GST in India. There is a great change happen in the Indian economy after implementation of unified GST bill.

Now the India is, “One nation, one tax and one market”.

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