



## A Study on GST and Its Effect on Economic Growth of India

Dr. Anilkumar D. Patel

Assistant Professor, D. N. P. Arts and Commerce College, Deesa

[japatel.ap@gmail.com](mailto:japatel.ap@gmail.com) 9898294007

### Abstract

The implementation of GST in India has resulted into amalgamation of different types of taxes that were levied in the form of indirect tax. This has resulted into simplified tax system with the common tax rate all over India. It will cover the entire chain of operations right from procurement, manufacturing, distribution, warehousing, sales and pricing. The concept of ITC will help to reduce tax evasion on the of assessee. Many amendments made seem assessee-friendly as the tax system is simplified and harmonized in the entire country. Almost 165 countries of the world have successfully implemented GST long back in the past but still nearly after 7 months of implementation of GST in India still GST is a big question mark especially from its acceptance point of view, it seems GST implementation has disturbed the comfort zone of the traders of India. Therefore the current paper will try to study the salient feature of GST, how it will function, challenges on effective implementation of GST and its contribution on economic development of the country.

**Key Words :** GST , Implementation, Challenges, Economic Growth

### Introduction

The introduction of GST is the major tax reforms made by the current government that will bring the entire tax system of the country under one umbrella. GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with setoff benefits at all the previous stages. The GST can help in reducing taxation and filing costs and expand business profitability, attract investment and improve tax compliance and increase tax revenue in the country. However, there are some issues about upcoming GST, which are supposed to discuss properly and addressed by concerned authority otherwise it will bring some another

issues to address in future.

### **Objective of the Study**

- To identify the impact of GST in Indian economy
- To study the major benefits from application of GST and few measures that can reduce some negative effect of GST

### **Research Methodology**

This research work is fully based on secondary data from various sources like reference books, articles from newspapers, research papers, talks in the parliament and various websites.

### **GST Global Perspective**

165 countries across the world have already implemented GST at national level. Canada and Brazil only have dual GST. The standard rate of most of the countries ranges from 16 to 20 per cent. France was one of the oldest having implemented in 1954 itself. Similarly, an advanced nation like United States of America has not figured in the list. The GST rate currently in operation across the world is listed below

<b>Country</b>	<b>Year of Implementation</b>	<b>Standard Rate</b>
France	April, 1954	20%
United Kingdom	April, 1973	20%
South Korea	1977	10%
Japan	April, 1989	8% (to be raised to 10% in 2017)
Singapore	April, 1994	7%
Australia	July, 2000	10%
Malayasia	April, 2015	6%

*Source: GST-Global Scenario*

For the feasibility of smooth global trade in the country GST was the prime requirement and India has taken adequate time to evaluate the complexity of implementing in a vast and heterogeneous geography. This itself would give enough responsibility to ensure that implementation is successful and without any hiccups. Another important aspect which one will have to understand while discussing on implementation of GST is: the rate and general threshold level above which it must be valid. Further, the stakeholders must understand GST in right perspective. Else, it could be difficult to carry on the government intent and facilitate smooth implementation of the fiscal change management process. Although a vast differences is observed in GST rate of different countries but this depends on macroeconomic condition of that country (OECD Study)

### **Projected benefits from GST**

It is expected that by implementation of GST will help to avail benefits like ease a cumbersome tax system, help goods move seamlessly across state borders, curb tax evasion, improve compliance, raise revenues, spur growth, stimulate investment and make investing and doing business in India easier

### **Need For Training**

Due to certain complex reforms the tax revenue department has huge responsibility of making smooth transition. The revenue department will have to train a large number of its officers and field staff for enabling the same. The National Academy of Customs, Excise and Narcotics (NACEN) has been tasked with the mammoth task of training officials of both the Centre and States. According to one report, the target is to train 60,000 officers. This is from administration side and on the other side the enduser also needs training as shown below :

- **Training to all stakeholders of business** - Business processes could change as the collection would be at the point of consumption and not at manufacture or service point. Most of the times, service point and physical service are normally same. But, there could be issues wherever virtual service is involved. Further, service is delivered through third parties like computer hardware, software and so on build complexity. This would need process definition and training all stakeholders.
- **Training to accountant** - Accounting related changes would happen. Hence software as well as accountants needs to be trained for implementing such changes. The object is to ensure minimal errors.
- **Training to related department (Marketing, IT etc.)** - As mentioned above, changes in IT systems would be required. This would involve many of the applications at the firm level; at the department level and interface of both. The operating resources need to be abreast about the rule and ensure synchronized financial flow is established. Marketing department must also understand the price impact. Hence, it needs to update in finalizing the price structure and sell the products and services at different regions. Supply chain network structure would significantly change in the post GST era. GST may not create any need for creating transfer points for optimal sales tax structure. There can be fewer hubs and flow of goods need to be handled than what is being done currently. Consolidation would need setting up of large distribution centres and multi user facilities. These need better evaluation and understanding of supply chain decisions. Hence this domain requires phenomenal training efforts.

Thus, there is going to be a need for training at many levels, which is from operators to decision makers in different domains. Everyone from individual service providers, small, medium and large firms have to adopt GST from the second quarter of the financial year 2017-18. This shows need for training millions of professionals. Unless

different stakeholders rise up to the need for delivering the same, the transition could be difficult.

### **Challenges**

- **With respect to Tax** - Threshold the threshold limit for turnover above which GST would be levied will be one area which would have to be strictly looked at. First of all, the threshold limit should not be so low to bother small scale traders and service providers. It also increases the allocation of government resources for such a petty amount of revenue which may be much more costly than the amount of revenue collected. The first impact of setting higher tax threshold would naturally lead to less revenue to the government as the margin of tax base shrinks; second it may have on such small and not so developed states which might have to set low threshold limit under current VAT regime.
- **With respect to nature of taxes** - The taxes that are generally included in GST would be excise duty, countervailing duty, cess, service tax, and state level VATs among others. Interestingly, there are numerous other states and union taxes that would be still out of GST.
- **With respect to number of enactments of statutes** - There will two types of GST laws, one at a center level called 'Central GST (CGST)' and the other one at the state level - 'State GST (SGST)'. As there seems to have different tax rates for goods and services at the Central Level and at the State Level, and further division based on necessary and other property based on the need, location, geography and resources of each state.
- **With respect to Rates of taxation** - It is true that a tax rate should be devised in accordance with the state's necessity of funds. Whenever states feel that they need to raise greater revenues to fund the increased expenditure, then, ideally, they should have power to decide how to increase the revenue.
- **With respect to tax management and Infrastructure** - It depends on the states and the union how they are going to make GST a simple one. Success of any tax reform policy or managerial measures depends on the inherent simplifications of the system, which leads to the high conformity with the administrative measures and policies.

### **Advantages of GST**

Upcoming GST will bring following advantages to the country.

- The GST will help to removing economic distortion and bring about common national market. The dream of one country, one act and one tax rate can be fulfilled.
- It will help to make transparent and corruption free tax administration in two ways. First relates to the self- policing incentives inherent to value added tax. To claim input tax credit, each dealer has an incentive to request documentation from the dealer behind him in the value-added/tax chain. Provided the chain is not broken through wide ranging exemptions, especially on intermediate goods, this self-policing feature can work very powerfully in

the GST. The second relates to the dual monitoring structure of the GST- one by the States and another by the Centre.

- If upcoming GST bill might have well designed and tax rate is more than 'Revenue Neutral Rate' (RNR is the rate which neutralize revenue effect of state and central government due to change in tax system, means ,the rate of GST which will give at least the same level of revenue that is currently earned by state and central governments from indirect taxes is known as RNR) and tax base becomes more buoyant, then, resources available for the governments will be increase which can be used for poverty alleviation and development activities in the country and states.
- As production cost will decrease which can support would support to increase export from our country.
- This tax will facilitate "Make in India" by making one India. The current structure unmakes India, by fragmenting Indian markets along state lines. These distortions are caused by three features of the current system: the Central Sales Tax on inter- State sales of goods; numerous intra- State taxes; and the extensive nature of countervailing duty exemptions that favor's imports over domestic production. In
- One fell swoop; the GST would rectify all these distortions: the GST would be eliminated; most of the other taxes would be subsumed into the GST; and because the GST would be applied in imports, the negative protection favoring imports and disfavoring domestic manufacturing would be eliminated.
- As taxable sale limit is brought down i.e. only Rs 10 lakh, it is expected that tax base will be comprehensive in the country. It will also diversify tax system and put equal burden on goods and services.

#### **Problem Solutions to Minimize, Disadvantages of GST**

Even though, GST is one of the revolutionary reforms about indirect taxes in the country after independence there are some possibilities that can effect on the public interest and the common predetermined objectives of the Governments. We should take care of following things:

- GST should not increase the vertical imbalances of resources and responsibilities among governments, particularly for Urban Local Bodies. Hope, finance commissions will take sufficient care of it.
- If GST led to regional imbalance of development, there should be legal provision to correct the same.
- Reliable I. T. infrastructure, trained man power and tax payer's attitude should be changed.
- The definition of goods and services should be clear otherwise it would lead to conflicts.

### **Conclusion**

Conclusion GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. One of the biggest taxation reforms in India -- the Goods and Service Tax (GST) -- is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions. Arun Jaitley said that while India aspires to evolve from a developing country to a developed nation and an economy that is making an impact globally with fastest growth rate, "we are substantially, in terms of taxation, a non-complaint society". So GST will be a revolutionary step in the field of indirect taxation reform in India.

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