

“Opportunities, Challenges & its Impact of GST on Indian Economy”.

Dr. Sunil D. Waghmode

Asst. Prof. , Annasaheb Magar College Hadapsar, Pune-28

E-mail id- waghmode.sunil@gmail.com

Mb No: 9730395539, 9021824846

ABSTRACT :

The Good and services tax (GST) is the most important indirect tax reform since 1947. This law is replaced may indirect taxes like value-added tax, service tax, excise duty and sales tax. It will be levied on manufacture sale and consumption of goods and services. now today, the GST system is applied there ‘One Nation One Tax’ system which would record a significant development in comprehensive indirect taxation reform. Under the GST system there would be only on rate applicable for both goods and services. GST will create and support business friendly environment, as prices will fall and it would also control the inflation rates .This research paper examines the opportunities and benefits of GST. The objective of research paper is to find out the challenges faced by GST. This paper highlights the impact of GST on Indian economy.

Keywords: Goods and Services Tax, Economic Development, Indian Economy, One Nation One Tax.

Introduction: The GST is shifting the whole scenario of current indirect tax system. It is considered as greatest tax reform since independence 1947. Before some time, in India complicated indirect tax system was followed various taxes imposed by central and states separately. GST unifies all the indirect taxes under an umbrella and creates a smooth national market. Researchers say that GST helps the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by more than 140 countries. Most of the countries followed combined GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST includes CGST and SGST. The Goods and Services Tax (GST) is immeasurable concept that simplifies the giant tax structure by enhancing and supporting the economic development and growth of a country.

Goods and Services Tax is a comprehensive tax which means it levy on manufacturing process, sales process and consumption of goods and services at a national level .The Goods and Services Tax Bill referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST is indirect taxes at all the stages of production for bring the uniformity in the system. GST act was passed in the parliament on 29th March 2017. The Act came into effect on 1st July 2017: Goods and Service Tax Law in India. On applying GST into practice, there would be combination of Central and State taxes into a single tax payment. This tax also grows the position of India in domestic as well as international market. At the consumer level, GST reduces the overall tax burden in the market, which is currently estimated at 20-30%.

Objectives of the research:

1. To find out the opportunities and advantages of GST
2. To find out the challenges faced by GST
3. To examine the impact of GST on Indian economy

Literature review:

1. Tambe R.D. 2018 explained in her research study that GST would be a very important step in the field of indirect taxation. The cascading and double taxation effects can be reduced by combing central and state taxes. Consumer's tax burden will approximately reduce to 25% to 30% when GST is introduced. After implementation of GST, Indian manufactured products would become more competitive in the domestic and international markets. This taxation system would instantly encourage economic growth. GST with its transparent features will prove easier to administer. In this research paper the author has tried to attempt to spot the concept of GST & its current status in our country. The research study has tried to give information about GST system. The research study aims to be familiar with the advantages and challenges of GST in Indian scenario.
2. Gupta (2014) maintains research study that implementation of GST in the India will lead to commercial opportunities and merits which were untouched by the VAT system and would essentially lead to economic growth and development. Hence GST may lead in the possibility of a collective profit for various sectors like industry, trade, agriculture and common consumers as well as for the Central Government and the State Government.
3. Saravanan Venkadasalam (2014) has explained the position outcomes of the goods and service tax (GST) on the nation development. He says that seven of the ten ASEAN nations are already implementing the GST. He suggested that the household final consumption expenditure and general government consumption expenditure are positively significantly related to the gross domestic product as required and support the economic theories. But the effect of the post GST differs in countries. Philippines and Thailand indicate the negative relationship with their nation's development. for now, Singapore shows a significant positive relationship. It is undeniable that those countries that implementing GST always encounter grows. However, the extent of the impact varies depending on the governance, compliance cost and economic distortion. A positive impact of GST depends on a neutral and rational design of the GST such a way it is simple, transparent and significantly enhances involuntary compliance. It must be actual, not presumptive, prices and compliance control would be exercised through an auditing system. It means that GST offers the best option to widen our tax base and we should not miss this opportunities and benefits to introduce it when the circumstances are quite favorable and economy is enjoying steady growth with only mild inflation.

The opportunities and advantages of GST:

GST will assistance too many parties including Government, Customers and Producers. The various advantages expected are as under:

1. **To the Consumers:** The major advantage of GST is that it reduces the cost of product and services. So customers will be getting the products and services at lower cost compared to the price they need to pay in current tax structure under VAT. Customer increases purchasing power and saving capacity.
2. **To the Producers:** at present because of multiple taxes in VAT there are some complexities which increases the cost of product GST, Overcoming all the shortcomings of present tax structure will reduce the cost of product. Producers will be able sale the products at lower cost which directly increases their amount of sales and profit.
3. **To the Government:** GST is simple to understand and implement, Customers whose income will be increased because of lesser tax, will save more and more amount of investment from customers.

4. **The challenges faced by GST:** The main problem against GST is about compensating State Governments. Presently with VAT indirect taxes are levied by central and state governments, contributing major portion of income to the state governments. But after the implementation of GST state governments will have to be depended on Central government and Financial Commission, State governments are assumed to face financial losses. Other pre requisites for GST would be good IT infrastructure, change in accounting practices and systematic registration process.

GST will bring the huge transformation in Indian taxation system:

GST will bring the huge transformation in Indian taxation system since 1947, but there are many provocations for its successful implementation and growth. These are as under:

1. **Consent of States:** For implementing it is critical that GST bill is passed by the respective state Governments in state assemblies so as to bring majority. This is a herculean task.
2. **Revenue Neutral Rate (RNR):** It is one of the renowned factors for its success. We know that in GST regime, the government revenue would not be the same as compared to the current system.
3. **Threshold Limit in GST:** While achieving broad based tax structure under Goods and Service tax, Both Central Government and empowered committee must ensure that lowering of threshold limit should not be a taxation burden on small businessmen in our country.
4. **Robust IT Network:** Government has already incorporated Goods and service tax network (GSTN). Goods and service tax network has to develop GST portal which ensure technology support for Goods Services Tax Registration, GST return filing, IGST settlements, tax payments etc. There should be a robust IT backbone
5. **Extensive Training to Tax Administration Staff:** GST is completely different from existing taxation system. GST requires that tax administration staff at both Centre and state to be trained properly in terms of concept, procedure and legislation.

The impact of GST on Indian economy:

GST has a positive impact on the economy and on various sectors which are as follows:

Fast moving consumer goods sector:-

With the implementation of Goods and Service Tax, FMCG sector would really change. FMCG sector consist 50% Food and Beverage sector and 30% is Household and Personal care. FMCG sector is the major taxation contributor both direct and indirect in the economy. The multiplicity of the taxation influences the company's decision on manufacturing location and distribution of Goods. FMCG companies set their manufacturing units and warehouses where they can avail tax benefits. To transfer the stock from the warehouses among the states they have to pay taxes. So, GST would surely impact on FMCG sector as taxes affect the cost to the company.

Food Industry:-

Since food constitutes a large portion of the consumer expense of lower income households any tax on food would be regressive in nature. Therefore, extending GST to food processing sector will also cause difficulty in view of the fact that production and distribution of food is largely unorganized in India. On global front, most of the countries tax food at a lower rate keeping in view the considerations of fairness and equity. Even in countries such as Canada, UK and Australia where food constitute a relatively small portion of the consumer basket, food is taxed at zero rates. While in some countries, food is taxed at a standard rate which is as low as 3% in Singapore and Japan at the inception of the GST. Even in international jurisdictions, no

distinction is drawn on the degree of processing of food. Hence, the benefit of lower or zero tax rates should also be extended to all food items in India regardless to degree of processing.

Information Technology enabled services:-

The proposed GST rate under the IT industry is not yet decided. While the discussed combined rate of GST for the product is 27%. According to proposed GST if the software is transferred through electronic form it would be regarded as service (intellectual property).and if it is transferred through media or any other tangible property then it should be treated as goods. Implementation of GST will help in uniform simplified and single point taxation and thereby reduced price.

Infrastructure sector:-

The Indian infrastructure sector largely comprises power, road, port, railways and mining. And the indirect tax levy is different and unique for each of them, and this is complex in nature. Although this sector enjoys different exemptions and concessions as it is important on national front. With the implication of GST the multiplicity of taxes will be removed and it would increase the tax base with continuation of exemptions and concessions for national interest and growth.

Impact on small enterprises:-

In the small scale enterprises there are three categories:-

- Those below sill need not to register for the GST.
- Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime.

In respect of the central GST the situation is slightly complex. GST is estimated to encourage compliance and which is also expected to broaden tax base adding up to 2% to GDP. Manufacturers, traders will have to pay less tax with the implication of GST.

Conclusion: Goods and Services Tax has brought One Nation and One Tax market which has given relief to producers and consumers by providing open and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Efficient implementation of GST is leading to resource and revenue gain for Centre and States government through improvement in tax compliance and widening of tax base. GST have a positive impact on various sectors. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. Electronic processing of taxation system, tax refunds, tax returns, and tax payments through 'GST NET' without people involvement, reducing corruption and tax evasion. Built-in check on business transactions through seamless credit and return processing is reducing the scope for black money generation leading to productive use of capital, Therefore It is necessary on the part of the government to conducting the training, education on GST is need of the hour.

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