

Impact of GST on Various Sectors of Indian Economy

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ABSTRACT

GST is an indirect or consumption tax levied in India on the supply of goods and services. It is considered as the biggest tax reform in India since independence. The main purpose of implementation of GST is to bring whole country under the single tax so that the double taxation or cascading effect of taxes may be removed. It is an effort by government of India to move the taxation structure of economy to the destination based consumption tax. GST has replaced several taxes like central excise duty, service taxes, entertainment taxes, VAT, central sales tax, octroi, luxury tax, state surcharge and several other surcharges on supply of goods and services. This paper will focus on the concept of GST, its features and its impact on several sectors of Indian economy. Data has been collected from the several secondary sources like research papers, books, journals and websites.

1. Introduction

There are two types of taxes imposed by Indian government to generate revenue- Direct tax and indirect tax. Direct tax refers to those taxes that are imposed on the individuals, companies, firms etc. whose burden can't be transferred to any other person such as income tax. Another tax is indirect tax which is imposed on manufacturing and consumption of goods and services like VAT, central excise duty, central sales tax etc. Both the taxes form a main part of revenue for government. Around 49% of revenue from tax is due to indirect taxes. But the main disadvantage of indirect taxes is the cascading effect of tax on goods and services. For example Central government charges the central excise duty at factory gate for manufacturing the goods and the state government also imposes several other taxes on consumption of such product. As a result tax has to be paid on the tax already paid. To avoid this and to unify India into a single common market, economic reforms in the form of GST took place on 1st July, 2017. The implementation of GST is expected to ease the taxation for industries and helps to remove the double taxation. It is also expected to reduce the overall tax burden for ultimate customers and will be easier to administer. The GST was also considered good to make the Indian products competitive in domestic and international market. GST has been implemented in almost all the sectors of Indian economy. This paper tries to study the impact of GST on various sectors of Indian economy.

2. Objectives of the research paper

- To know the concept of GST and its features.
- To study the importance of GST.
- To study the impact of GST on various sectors of Indian economy.

3. Research methodology

This paper is descriptive in nature as it describes the impact of GST on several sectors of Indian economy. The data for the research paper has been collected through several secondary sources like magazines, articles and research papers published online and offline, newspapers and websites.

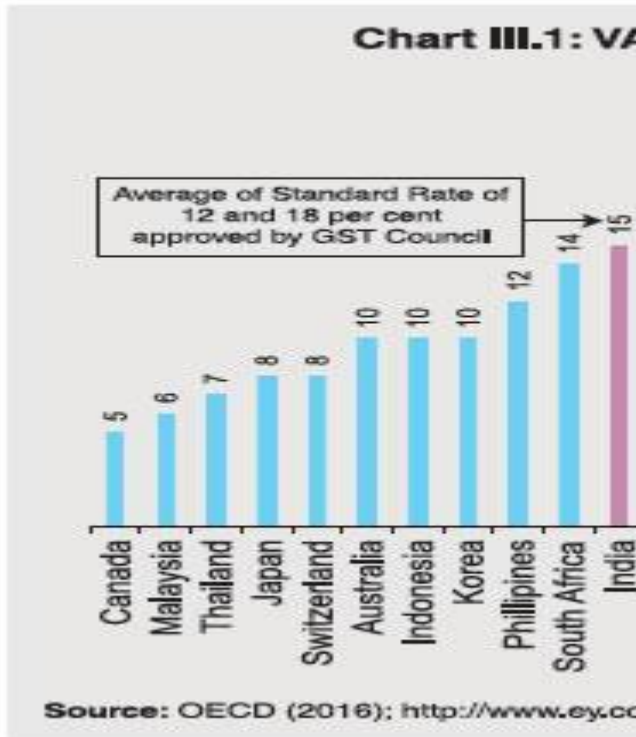
4. Concept of GST

GST (Goods and Service Tax) is the biggest indirect tax reform since independence. It is comprehensive, multistage, unified single tax imposed on value addition at every stage. It came into existence on 1st July, 2017. The concept of GST was suggested by The Atal Bihari Vajpayee government in 1999. A company headed by Ashim Das Gupta was formed to create a structure of GST. In 2002, a taskforce under Vijay Kelkar was formed to recommend the tax reforms. In 2005 Kelkar committee recommended adoption of GST. However in 2006 New finance minister continued on the work of GST and proposed GST roll out by April 1, 2010. But due to protest of opposition party, the implementation was postponed and bill was sent for detailed investigation. Again, In 2014 new finance minister, Arun Jaitley submitted the amended bill in parliament. In 2015, Lok Sabha passed the bill but kept petroleum products out of GST. In 2016 with slight amendments the bill was passed in Rajya Sabha and in September 2016 honorable president gave their consent to constitute the bill as an act. Finally it was implemented in India from 1st July, 2017. The Jammu and Kashmir legislature passed its GST act on 7th July, 2017 which ensured that the whole country is brought under unified indirect taxation system.

GST is a dual taxation based system which consists of CGST and SGST. CGST (Central Goods and Service Tax) has replaced several central taxes like central excise duty, central sales tax, service tax etc. SGST (State Goods and Services Tax) has replaced the state taxes like purchase tax, octroi etc. The taxes collected as CGST and SGST goes to centre and state respectively. IGST (Integrated Goods and Services Tax) is imposed on the interstate supply of goods and services that has replaced the central sales taxes on interstate transactions. These taxes are collected by centre. UTGST (Union Territory Goods and Services Tax) is to be imposed on union territories.

Almost 150 countries has implemented GST in direct or indirect form. Countries like Singapore and New Zealand taxed everything under single rate. Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. Goods and services are divided into five slabs for tax purposes-0%, 5%,

12%, 18% and 28%. Special rate of 0.25% on rough precious and semi precious stones and 3% on gold is also under GST act. Some items of necessity are exempted under GST. However petroleum products, alcoholic drinks and electricity are not taxed under GST and these are taxed under the previous tax regime by respective state governments. Under GST scheme, a person is liable to pay tax on his output and is entitled to get input tax credit (ITC) on the tax paid on its inputs. The following chart shows GST rates in several countries:



Source: Reserve Bank of India publication 2017.

5. Features Of GST

- GST is based on the dual tax concept which is apportioned between central government and state government in equal proportion.
- GST will cover up almost all items except petroleum, alcoholic drinks and electricity.
- GST is based on the destination based multi imposition of tax subject to the input tax credits at specific levels.
- GST is calculated on the basis of invoice credit method so that the ITC claim can be claimed properly and tax is calculated on final consumption of goods and services.
- There is proper procedure of collection of GST through perspective legislation.
- All the taxable entities above threshold limits are required to obtain GST registration number.

6. Importance of GST

- **Removing Cascading Effect:** Before the implementation of GST, several types of taxes were imposed by central and state government. Around 17 types of taxes were imposed resulting in multiplier impact on the tax and on cost of the product. This

resulted in high cost of goods due to the cascading effect. These taxes were replaced by GST which resulted in removing the cascading effect.

- **Helps in removing the difference between sale and service:** Several items and services were difficult to divide in goods and services at the point of sale. As a result, the suppliers were charged VAT as well as service tax on purchase of these items which results in double taxation. Under GST, there is no difference between goods and services. This helps in removing the double tax on same item.
- **Easiness in doing business:** Earlier a businessman has to maintain the records as per the several different acts like VAT, Central Excise Duty etc. There were different tax assessment under different acts which makes the activities of business difficult and cumbersome. With subsuming of all indirect taxes into GST, it is easy to maintain records and results in easiness in business. It may be a reason of improvement of Indian ranking from 130 to 100 in the year 2018 in ease of doing business index.
- **Uniformity of tax rates:** Rates of taxes under different acts were not same in all the states. For example the VAT rates were different in U.P., Delhi, Haryana for the same item of goods or services. It creates a doubt among the purchaser regarding the purchase from a particular state. Due to GST, the rates are uniform in whole country and it is easy to understand and implement.
- **Reduced litigation:** There were several pending cases in central excise and service tax appellate tribunal, several were pending under finance ministry and several cases under several acts for avilment of values, taxes, appeals etc. Conversion of all these taxes into GST has helped in reducing the litigation process.

Several other advantages like strengthening the tax base, removal of road blockage, easiness in tax payment etc. are the benefits of GST.

7. Impact of GST on Various Sectors

GST has been imposed by the government in order to enhance the economic growth. Since its implementation it is influencing various sectors of Indian economy. Indian economy consists of mainly three sectors comprising agriculture, industry and service sector. The impact of GST will be discussed on these sectors in following points:

- **Pharma sector:** As per the reports of Shri Mansukh Mandaviya (minister of chemicals and fertilizers), Pharmaceutical sector has seen a positive growth after GST. Before implementation of GST, annual turnover was 114231 crores as on 31.5.2017 in Pharma sector which increased to 131312 crores in may 2018. This shows around 6% growth in this sector. Exports in pharma sectors were increased nearly 10% from 275852 cores to 303526 cores after implementation of GST. Drug approvals were also increased from 7857 to 10446 post GST. Thus we can say that pharma sector has positively grown after implementation of GST.

- IT/ ITes Sector:** Although the tax rate in IT sector has been increased under GST, yet there is positive growth in this sector. IT industry was paying 15% service tax as opposed to 18% under GST, leading to immediate increment in the cost of implementation. However, claim of tax under ITC was not available under VAT which is available in GST. This has benefitted the IT sector.
- Automobile Sector:** The automobile sector is positively impacted through GST. It is due to reduction of tax rates for manufacturer of automobiles and ultimately will benefit the customers. The following diagram will show the positive impact of GST on automobile sector:

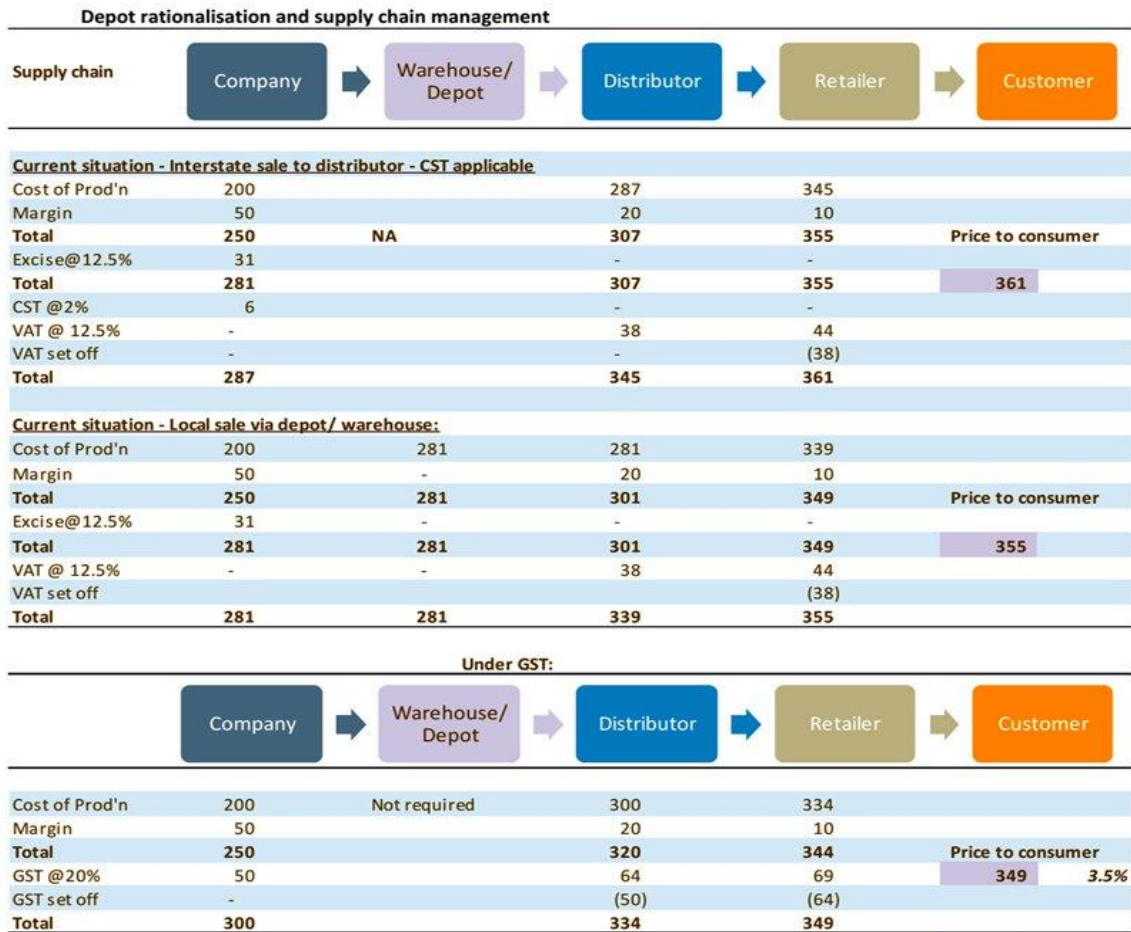
Tax rates before and after GST in automobile sector

Segment	Current levies			Proposed GST rate			Difference
	Central Excise	VAT	Total	CGST	SGST	Total	
Small passenger cars (eg - < 1200 cc petrol and < 4000 mm)	8.00%	12.50%	20.50%	10.00%	10.00%	20.00%	(0.50%)
Mid-size/ luxury passenger cars (eg - > 1500 cc)	24.00%	12.50%	36.50%	10.00%	10.00%	20.00%	(16.50%)
LCVs	8.00%	12.50%	20.50%	10.00%	10.00%	20.00%	(0.50%)
HCVs	8.00%	12.50%	20.50%	10.00%	10.00%	20.00%	(0.50%)
Tractors	Nil	5.00%	5.00%	Nil	6.00%	6.00%	1.00%

Source: <http://www.motorzest.com/2015/04/impact-of-gst-on-indian-automobile.html>

- Logistic Industry:** It is the backbone of Indian economy and most positively affected by GST. India has successfully jumped 19 positions in logistics performance index from 54th to 35th. Also the concept of E-Way bill has simplified the clearance process and helped in reduction of corruption activities.
- Entertainment Industry:** Impact of GST on entertainment industry is positive as well as negative depending on the states. The main reason behind this is the different rates of service tax in different states ranging from 0 to 110%. The rate of GST is 18 to 28%. Hence the states where the entertainment tax and vat were lesser than the 28% rate has negatively impacted whereas the states where the rate was above 30%, has positively affected through GST. Also the entertainment service providers can claim ITC under GST. Thus we can say that GST has positively impacted the entertainment industry.
- Banking Sector:** The impact of GST on banking industry is quite complicated. The main reason is that the rate of GST on banking services like ATM services, insurance services etc. has increased from 15% to 18%. Along with this, the activities like adjudication and assessment, Input tax credit etc. are also cumbersome and created a burden on banking sector. Thus we can say that Banking sector is not positively affected by GST.
- Textile Sector:** Textile industry is negatively affected by the GST. Earlier the textile sector was out of tax regime but under GST the textile industry was included under 5% rate, this has made the clothes costlier. Also the GST has adversely affected the export o textile industry. The small traders are confused due to GST implementation. Thus we can say that GST has negatively impacted the textile sector.
- Real Estate and Property:** GST has positively impacted the real estate and property as the taxation was quite complicated for the buyers which was simplified under GST. Earlier the buyer has to pay VAT, service tax, stamp duty and registration charges on the under construction property which was a tedious computation. GST has simplified this process and made it is for the buyer. Also the input tax credits helps in reduction of purchase price of the property. In this way, positive impact of GST on real estate and property industry.
- FMCG Industry(Fast Moving Consumer Goods):**FMCG industry has positively impacted through GST. It is the biggest economic platform in India. All the items under GST of FMCG are taxed under 18 to 20%. Lower GST rates, gives benefits to consumers directly. The following diagram will show the impact of GST on FMCG:

Comparison of pre GST taxes and posts GST in FMCG industry



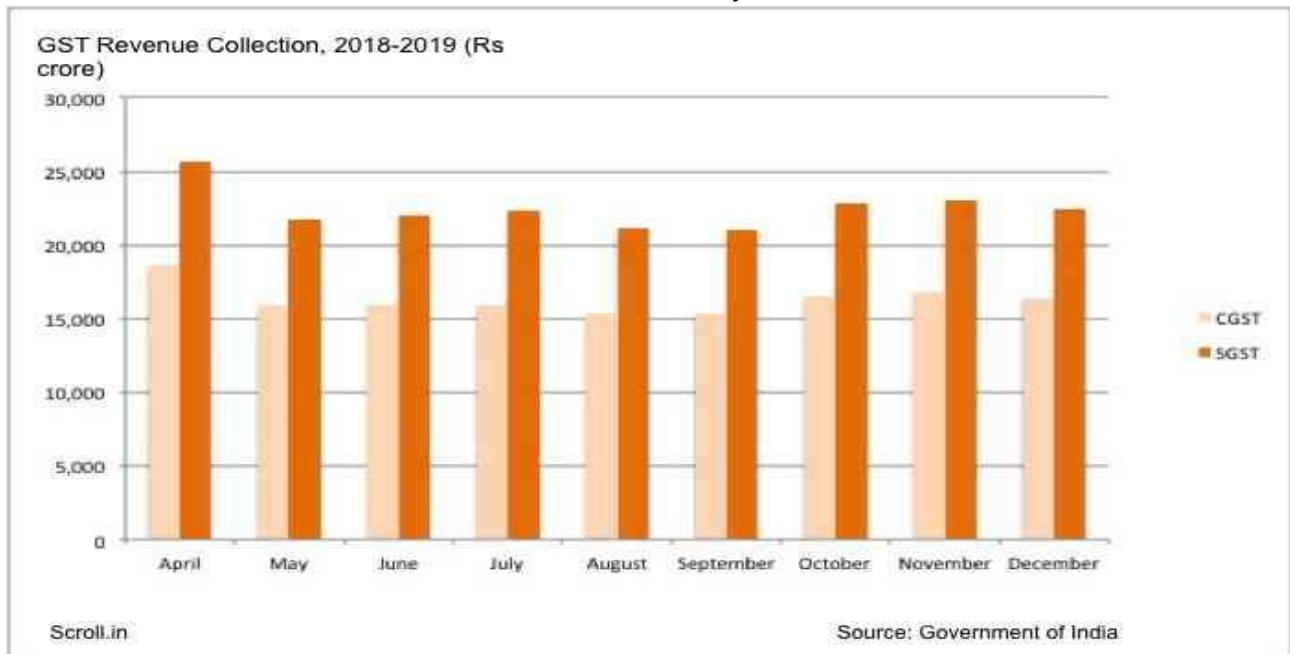
Source: Edelweiss research

Source: <https://www.moneylife.in/article/gst-consumer-companies-ready-wholesalers-worried-about-denting-margins/50344.html>

Similarly the sectors like transportation and telecommunication has positively impacted by GST. It was assumed that GST will reduce the total revenue of government as several sectors were opposing the implementation of GST.

However GST has positively impacted almost all the sectors of the economy and as the time will pass it will successfully generate the revenue for government. The following chart shows the GST revenue collection in the year 2018-19.

GST revenue collection in the year 2018-19.



Source: <https://scroll.in/article/908245>

8. Conclusion

GST has mixed impact on the Indian economy. Some sectors are positively impacted by it whereas some sectors are negatively affected by it. Main sectors that were adversely affected by GST were agriculture and textile sector, the reason being outside the tax regime before GST. As government has narrowed down the exempted items list, the sectors coming under GST area are showing slight resistance. However the government is making efforts to continuously reduce the tax

rates for necessity goods and simplifying the GST procedure of return filling. Enhancement of limits of registration and composition schemes has positively benefited the tax payers as well as government (in the form of revenue). However certain rules and regulation regarding return filling and input tax credits are still unclear and these should be properly analyzed so that the tax area can be enhanced.

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