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Research Paper

IMPACTS OF GOODS & SERVICES TAX ON MAJOR SECTORS OF INDIAN ECONOMY

Dr. Ashok Kumar Gupta[1]	[1]Lecturer (ABST), Govt. Commerce College, Kota, Rajasthan, India
Dr. Meenu Maheshwari[2]	[2]Assistant Professor, Deptt. of Commerce and Management, University of Kota, Kota, Rajasthan, India
Mrs. Sudarshana Sharma[3]	[3]Research Scholar, Govt. Commerce College, Kota, Rajasthan, India

ABSTRACT

Manuscript Type: Theoretical Study

Research Issue: *Goods and Services tax (GST) is a comprehensive, consumption, and destination based tax which is levied on manufacture, sale, and consumption of goods and services at a national level. The main purpose of GST is to eliminate the compounding effect of taxation by fixing the single tax rate and to create a single, unified Indian market to boost India's economic development by integrating state economies and provide a common market for goods and services. After its implementation from 1st July'2017, it has affected all the sectors of Indian economy positively and negatively both. To offer relief to consumers and businesses, decisions on reduction of GST rate on various products and services and changes in compliances procedures have been taken in the 22nd and 23rd GST council meetings held in October and November respectively.*

Research Objective: *The main aim of the study is to study the implications of GST on major sectors of Indian Economy.*

Method of Data Collection: *The data for the study has been collected through secondary sources which include various articles, journals, reports, different websites etc.*

Research Conclusion:

Goods and Services tax is implemented with an aim of "One Nation, One Tax, and One Market. It will help to improve economic growth of the country and will increase the GDP of the country. It will reduce the tax burden of manufactures and fosters growth through more production, more exports, and more employment. Individuals will be benefitted from lowered prices of goods which will lead to more consumption thereby benefiting the manufacturing companies. Overall, it has both the pros and cons for different sectors of economy but it is good step towards the economic development of the country and benefits of which can be seen in the long run. Reduction in GST rates and ease in compliance will benefit the consumers and businesses both.

KEYWORDS: *Goods and Services tax, GST rates, demonetization, single tax rate*

INTRODUCTION

Taxes have been the major source of revenue collection to government for spending on public services, infrastructural facilities and many other social welfare activities. The main aim of the tax law of a country is to raise sufficient revenue through taxes in efficient, effective and equitable manner. A good taxation system must be able to control income distribution and endeavour to generate tax revenue for expenditure on development activities of the country. Goods and Services tax is one of the major taxation reforms in Indian history and expected to be a milestone in the economic development of India after demonetization in Nov'2016. After a long awaited decision and discussions on Goods and Services Tax Bill, it is being applicable with effect from 1st July'2017. GST bill is brought to unify the various types of indirect taxes into one tax that is GST. The main purpose of GST is to eliminate the compounding effect of taxation by fixing the single tax rate and to create a single, unified Indian market to boost India's economic development by integrating state economies and provide a common market for goods and services.

Goods and Services tax (GST) is a comprehensive, consumption, and destination based tax which is levied on manufacture, sale, and consumption of goods and services at a national level. This tax is collected on value –addition on goods and services at each stage of sale or purchase in supply. This system will allow to set-off of GST paid on the procurement of Goods and services against the GST which is payable on the supply of goods and services. It has led the abolition of all indirect taxes such as Octroi, Excise Duty, VAT, sales tax, service tax, surcharges; stamp duty, custom duty etc.

In India dual model of GST is adopted which will include CGST collected by central government and SGST collected by state government on intrastate sales. After its implementation in July'2017, decisions regarding reduction in GST rates of many products and changes in compliance procedure of GST return filings have been taken to ease the burden of taxpayers in the 23rd GST council meeting at Guwahati on 10th Nov.'2017.

Advantages of GST:

1. Overall reduction in the prices of goods and services due to elimination of cascading, multiplicity and duplication of taxes.
2. Uniform prices of goods and services and single tax rate and a common national market.
3. Transparent and efficient tax system.
4. Increased consumption due to decrease in prices of goods and services will boost manufacturing activities which lead to more employment opportunities, reduces poverty and will increase GDP.
5. Enhance the ease of doing business in the country.
6. Decrease in circulation of black money transactions.

Disadvantages of GST:

1. Complicated Structure as dual GST is adopted in India.
2. Prices of goods will come down but services industry will bear the burden of high tax rate.
3. Proposed GST rates are higher than VAT.
4. Dual control of business by centre and state in all tax related matters which can create economic as well as political issues.
5. Extensive training will be required to tax administration staff on concepts, legislation and procedure.
6. It will require strong IT network for smooth functioning.

OBEJECTIVES OF THE STUDY

The main aims of this study are as follows:

1. To review the literature on Goods and Services Tax (GST).
2. To study the implications of GST on major sectors of Indian Economy.

DATA COLLECTION

The data for the study has been collected through secondary sources which include various articles, journals, reports, different websites etc.

REVIEW OF LITERATURE

Shaik et al. (2015), in their paper on "Does Goods and Services Tax (GST) leads to Indian Economic Development" studied the concept, advantages and challenges of Goods and Services Tax and its impact on Indian Economy. They concluded that GST is major improvement over the VAT and services tax and a logical step towards a comprehensive indirect tax reforms. It will lead to many commercial benefits and that will lead to economic development of the country. A single rate for all goods and services would help to maintain simplicity and transparency.

Kaur (2016), in her paper on "Goods and Service Tax (GST) and Its Impact", concluded that GST is a biggest change in Indian tax structure. After its implementation there may be fall in prices of some commodities and prices of some goods and services may rise. States may face reduction in their financial resources.

Dani (2016), in her research paper on "A Research Paper on an Impact of Goods and Service Tax (GST) on Indian Economy", concluded that the proposed GST regime is half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate.

Dash (2017), in his research paper on "Positive and Negative Impact of GST on Indian Economy", concluded that GST will affect the Indian economy both positively and negatively. It could be a good way to reduce black money to eliminate cascading of taxes, will boost manufacturing activities, generate more employment etc. Negatively, proposed GST rate is higher than the VAT rate in India. There will be dual control of state and central on all tax related matters and loss may incur to manufacturing states. Overall it's a good effort by government of India after the demonetization in 2016.

Kawle et al. (2017), in their paper on "GST: An Economic Overview: Challenges and Impact Ahead", concluded that a new tax system is considered to be more improved system over the previous system at national and state level. A single tax rate will help maintain simplicity and transparency by treating all goods and services equal without giving special treatment to some types of goods and services. It will reduce the litigation on classification issue. They said that time will decide whether it will have positive or negative impact after its implementation.

Kour et al. (2016), in their paper on "A Study on Impact of GST after its Implementation", studied the impacts, benefits, challenges of GST after its implementation. They concluded that well designed GST is an attractive method to get rid of deformation of the existing process of multiple taxation and will reduce the compliance burden. GST will play a dynamic role in the growth and development of the country and will also help to accelerate the overall gross domestic product (GDP) of the country.

K. Rajesh (2017), in his paper on "An Economic Pros and Cons of Goods and Service Tax (GST) in India", concluded that GST is an extension of VAT which includes services also. Initial losses of revenue to states would be compensated by centre and when GST is implemented in good spirit the revenue of both central and states government shall be increasing in the long run.

Vijayaraghavan and Unais (2017), in their paper on "A study on the Impact of GST in Indian Economy", concluded that the implementation of GST will reduce tax burden on manufacturer, eliminate the tax credit problems, over taxation problem and ultimately encourages for higher production. GST aims at reducing the complexities prevailing in the indirect tax structure in India and to make uniform the scattered indirect tax system in India and avoid the cascading effect in taxation.

Sharma and George (2017), in their paper on, "GST: A Game Changer in Indian Tax Structure", focuses on the importance of GST, evolution of GST in India, the comparison of present and GST Tax Structure, the economic implications of GST and the challenges faced in GST. They concluded that GST would put India's tax structure at par with more than 140 countries and would be productive for all the sectors. Implementation of such reforms does face surmountable challenges; however it will also bring benefits in the form of higher GDP and also transparency in the tax system. The GST would be imposed on the value addition and thus would leave lesser scope for tax evasion.

IMPACTS OF GST ON MAJOR SECTORS OF INDIAN ECONOMY

Goods and Services Tax structure has affected all the sectors of Indian economy. Some sectors are facing positive impacts and some are facing negative impacts. An impact on some of the major sectors is explained as follows:

Impact on Real Estate Sector:

Real estate sector is an important contributor to the national economy. GST has affected both buyers and developers. Developers were charged for excise duty, VAT and entry taxes collected by states on construction material costs and 15% tax on services of layout, architect fees, approval charges, legal charges etc. and all these tax burdens was transferred to the buyers eventually. Developers and contractors would reap the benefit of many taxes which will be subsumed by GST and this will increase the margins of Contractors. Buyers were liable to pay VAT, service tax, stamp duty and registration charges on purchase of under construction properties and stamp duty and registration charges on purchase of completed properties. VAT, stamp duty and registration charges were state levies and Service tax was central levy. So the calculation of all these was very complicated in earlier tax system. Under new tax regime, GST is charged at 12% of property value on all under construction properties excluding stamp duty and registration charges. No indirect tax is applicable on sale of ready to move-in properties. GST is applicable on overall purchase price. The impact of GST on this sector is neutral. It will bring transparency in the sector and minimize corrupt transactions.

Impact on Banking Sector:

The Banking sector is one of the largest service sectors in Indian economy. Implementation of GST is a challenging task for this sector due to higher GST rate of 18% is applicable as compared to previous service tax rate of 15% and secondly due to the huge geographical reach of most banks. This hike of 3 % has increased the cost of banking transactions such as credit card payments, fund transfer, ATM transactions, processing fees of loans, issue of cheque books, interest on loans, trading on securities, foreign currency and retails services etc. Bank branches in multiple states and union territories will need to have separate registration under GST and all records have to be maintained for each state separately. Determining the place of supply will not be easy as bank branches usually conduct transaction both within and outside states. They need to decide whether the payment is against CGST, SGST and IGST (Inter-state or Intra-State). Complications have increased for banking sector after the implementation of GST.

Impact on Automobile Sector:

The business of Automobile sector in India is enormous and a large number of bikes and cars are produced annually and sold among the huge population of India. After implementation of GST, the cast of manufacturing cars and bikes would reduce due to incorporation of different taxes like excise duty, VAT, sales tax, road tax, motor vehicle tax, registration duty on cars and bikes etc in one tax that is GST. The tax would be charged on consumption state rather than the origin state which will give boost to growth of automobile sector. The average combined rate of excise and VAT was 26.50% to 44% on cars and bikes charged under previous tax system and now the rates under GST are 18% and 28%.

Impact on FMCG Sector:

FMCG Sector is the fourth largest and fastest growing sector in Indian Economy. GST would have a significant impact on this sector. GST will eliminate the need for multiple sales depot that will reduce the logistics and distribution cost. In the previous tax system FMCG sector has to pay VAT, Service tax, excise duty, entry tax etc. but after the implementation of GST they all will be covered under one single point of tax in the form of GST. No Input Credit was available for taxes like CST, CVD and SAD under previous tax regime, but under GST input credit will be available for all GST payments made during the business. Overall FMCG sector is positively affected by GST.

Impact on Agriculture Sector:

The agriculture sector is the largest contributor in the overall GDP of India which contributes around 16% in Total GDP. The impact of GST would be positive on this sector. The farmers/ distributors will be benefited in the long run as there will be a single unified market after implementation of GST to sell their products at best available prices. GST would reduce the cost of heavy machinery required for producing agricultural commodities. Dairy farming, poultry farming and stock breeding are kept out of the definition of agriculture under GST so these will be taxable under GST. Rate of tax under GST on pesticides have gone up that will increase the burden on Farmers.

Impact on Manufacturing Sector:

After the implementation of GST, the manufacturing sector in India is expected to grow more strongly and competiveness and performance of this sector will be significantly improved. After the implementation of GST, cascading of taxes will reduce and lead to lower cast of production. The previous tax regime does not permit tax credit of central taxes over state taxes and vice-versa. Under GST tax credit will be permitted which will reduce the cast of Goods. GST will unify the Indian Market and ensures a smoother, unrestricted flow of goods across the country.

Removal of multiple valuations will create simplification in tax valuation. Overall prices of goods and services will decrease that will demand for more production and more production will lead to increase in employment opportunities and ultimately will increase the GDP of India.

Impact on Service Sector:

Indian service sector is a major contributor in Gross Domestic Product and provider of huge chunk of employment opportunities in the country. It also attracts foreign investment towards Indian Economy and contributes in exports. IT services, telecommunication services, the insurance industry, business support services, banking and financial services etc. are the main service providers that borne most of the tax burden as service tax assesse. GST rate on most of the services have increased to 18% from 15% that has made the services and works contracts costlier. The double taxation effect due to disputed goods and services in the previous tax regime has been eliminated as both supplies of goods and services will be treated once with the unique rate of tax respectively. Most of the service providers with operations in multiple states will have to register and assessed separately in each states. Two half-yearly returns were required to be filed by services providers under old service tax system but under GST this has been replaced by a number of returns to be filed in shortly timeline that will results in better streamlining of taxes. In the 22nd GST council meeting held on 6the October'2017 GST rates on job works services have been rationalized. Overall, GST will be beneficial to the service sector but it will entail additional cost and efforts in the short term.

Impact on different Sectors after the Decisions taken at 23rd GST Council Meeting:

In the 23rd GST council meeting at Guwahati on 10th November'2017, decisions have been taken regarding reduction of GST rates on different products and changes have been done in GST returns filing to provide relief to taxpayers. It has affected various sectors of Indian economy mainly FMCG and consumer goods companies. Following major changes have been done in the above meeting:

- 178 items have been shifted from top tax bracket of 28 per cent to 18 per cent which mainly included daily used FMCG products like chocolates, detergents, shampoo, hair creams, henna powder, deodorants, condensed milk, refined sugar, sugar cubes, idli-dosa batter, frozen fish, cosmetics etc. and other products like fans, pumps, lamps, sanitary ware, marble, granite, glass, wires, cables, electrical boards/panels, furniture, fire extinguishers, rubber tubes and all musical instruments and their parts etc.
- Tanks and Armoured fighting vehicles have been shifted from 28 per cent to 12 per cent.
- Luxury and sins goods like pan masala, aerated water and beverages, cigars and cigarettes , tobacco products, cement, paints, perfumes, AC's, dish washing machines, washing machines, refrigerators, vacuum cleaners, cars and two-wheelers, aircraft and yacht are only now in highest bracket of 28%.
- GST on all AC and Non-AC restaurants, restaurants of hotel with room tariff of less than Rs. 7500/- per day have been slashed from 18 per cent and 12 per cent to a flat 5 per cent without ITC.
- Restaurants in hotels with room tariff of Rs. 7500/- or above will be charged 18 % GST with full ITC.
- Reduction of GST rate from 28% to 18% on products such as plastic floorings, fabrics, furniture, vacuum flasks bath and sanitary fittings and other miscellaneous plastic products will help in reduction of prices of these products ultimately benefiting end consumers and would keep manufacturers stay competitive in the domestic market.
- Changes in composition scheme includes GST rate will be charged at 1% for manufacturers and traders, extension of composition scheme limit to Rs. 1.5 crore, composition tax of 1 % will be charged on turnover of taxable goods and interstate sales will not be permissible for composition dealers and input tax benefit will not be allowed to them.
- Due dates for furnishing GST returns have been revised and few changes have been done in filing returns.

CONCLUSION

Goods and Services tax is implemented with an aim of "One Nation, One Tax, and One Market. It has overlapped the complicated taxation system of the country into a simple, efficient, transparent tax system which will help to improve economic growth of the country and will increase the GDP of the country. It will reduce the tax burden of manufactures and fosters growth through more production, more exports, and more employment. Individuals will be benefitted from lowered prices of goods which will lead to more consumption thereby benefiting the manufacturing companies. GST has both the pros and cons for different sectors of economy but it is good step towards the economic development of the country and benefits of this new tax regime can be seen in the long run. Over 200 items including daily use products have become cheaper with the GST revised rate. Reduction in GST rates will be helpful in reducing prices of the products and that will encourage domestic demand. Consumer goods companies are the primary beneficiary of revised GST rates. Small businesses across different sectors, restaurants and hotels are also benefitted. These decisions can be growth enabler for wide segments of various industries and will benefit the Indian economy in long term.

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