International Journal of Trend in Scientific Research and Development (IJTSRD)
Volume 7 Issue 3, May-June 2023 Available Online: www.ijtsrd.com e-ISSN: 2456 – 6470

A Study on Challenges and Impact of Goods and Services Tax on Various Sectors of the Indian Economy

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ABSTRACT

In the field of Indirect tax reforms in India, Goods and Services Tax is a noteworthy step. Many countries of the world follow GST as it ensures a comprehensive single tax system removing tax barriers and helps the economy in its efficient growth and development. GST will help Indian economy by uniform tax rates, removing double or multiple taxation and reducing goods and services prices, etc. Taxation is the major source of revenue for the government. Dr. Vijay Kelkar, a chairman of 13th Finance Commission has advised to have a scientific, rational, and modern taxation system in tune with developed countries, rightly form the base behind Goods and Service Tax introduction in India. A taxation system that facilitates growth of business and reduces tax evasion brings prosperity to the economy. The main idea behind the introduction of GST was replacement of exiting multiple taxation system. Introduction of GST will affect existing tax structure and it may have positive or negative impact on different sectors of the economy. This paper focuses on the background, benefits, objectives, challenges, and impact of GST on different areas of Indian economy. At the end, the paper draws out a certain conclusion.

KEYWORDS: *Fiscal policy, Taxation, Tax evasion, Indirect tax reforms, Value added tax, GST, GST Council, Tax reforms*

How to cite this paper: Prof. Kishorsinh Chauhan | Dr. Manoj Sharma "A Study on Challenges and Impact of Goods and Services Tax on Various Sectors of the Indian Economy" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-7 | Issue-3, June 2023, pp.292-296, URL: www.ijtsrd.com/papers/ijtsrd56367.pdf

IJTSRD56367

1. INTRODUCTION

On March 29,2017 the Goods and Services Tax Act was passed in the Indian parliament and GST Act came in to force on 1st July 2017. One of the objectives behind GST Act was "One tax, One nation." The taxation system in India covers Direct and Indirect Tax. Goods and Services Tax (GST) is one of the most supportive of Indirect Taxation reforms.

Many indirect taxes in India like excise duty, value added tax, service tax, etc. are replaced by Goods and Services Tax. GST is a single, comprehensive, multi-stage, destination-based tax imposed on every value addition.

The concept of GST is a Canadian value-added tax levied on most of the domestic consumption. GST is paid by the consumers, but it is imposed on businesses who remit tax revenue to the government by selling the goods and services. At the national level, GST is a fully inclusive indirect tax levy on the manufacture, sale, and consumption of goods and services.

In India, Goods and Services Taxes would be collected in three ways; CGST: in which the tax revenue will be collected by the central government, SGST: in which the tax revenue will be collected by the state governments for intra-state sales, IGST: in which the tax revenue will be collected by the central government for inter-state sales.

In India in the year 1944, Baghchi Report suggested the introduction of "Value Added Tax (VAT) for taxing Goods and Services. Further, in the year 2000, a discussion on GST started which was initiated by the Vajpayee Government by locating an authorized committee. Asim Dasgupta, the Finance Minister of West Bangal was the head of the committee made for designing the GST model and overseeing the IT back-end awareness for its rollout. In 2004, GST in India included with integration of Indirect tax which was strongly recommended by Vijay Kelkar chairman of the 13th Finance Commission. The Union Finance Minister Shri P. Chidambaram encouraged the introduction of GST in Inda in 2006 and he projected to introduce it by 1st April 2010. In December 2014, the Constitution (122^{nd} Amendment) Bill was introduced in Parliament. Finally, the Lok Sabha agreed on the much-delayed Constitutional Amendment Bill to introduce Goods and Service Tax on 6^{th} May 2015.

GST rules and rates are finalized by the GST Council in the year 2017 and Modi Government announced the GST Bill On 1st July 2017.

2. New form of GST:

GST Council fixes the GST rate slabs. The GST Council review and revise the rate slabs on a regular basis. The latest GST rates were revised at the 41st GST Council Meeting held on 27/8/2020. GST rates are kept high for luxury items and low for essential items. GST structure for different kinds of goods and services is classified into four slabs by the GST council: 5% GST, 12% GST, 18% GST, and 28% GST.

For imposing GST, Goods and services are divided into the HSN code system or the SAC code system. Goods are classified using the HSN Code and services are classified using the SAC Code. Based on HSN or SAC code, GST rates have been set in five slabs 0%, 5%, 12%, 18%, and 28%. The Harmonized System Nomenclature Code Number (HSN), an internationally accepted commodity description and coding system was developed by the World Customs Organization whereas the Services Accounting Code (SAC), a classification system for services was developed by the Service Tax Department of India. The General Service Tax rates for services are fixed in five slabs using the SAC code, namely 0%, 5%, 12%, 18%, and 28%. The default GST rate for services of 18% is applicable if the GST rates are not provided for the service.

3. Literature review:

- Nishitha Gupta (2014) outlined in her study that compared with the current tax structure, GST would give many benefits to India.
- Jaiprakash (2014) has stated GST is expected to give more relief to industry, trade, agriculture, and consumers through a full and wider exposure of input tax set-off and service tax set-off and covering different taxes in the GST. The best option is offered to us by GST to extend our tax base and we should take advantage of this opportunity to introduce it.
- The article "Study on Impact of goods and services tax implementation in India" by Pinki, Supriya Kamma, and Richa Verma (June 2017) focused on GST implementation, to understand it as a system as well as a process. They opinioned that the organizations, as well as the consumers, may support the government to accelerate the growth of the economy.
- The study of GST by Vasanta Gopal (2011), "A Big Leap in the Indirect Taxation System" focused on the impact of GST on various sectors of the economy. The article emphasized that GST is a big leap and a new impetus to India's economic change. The paper concluded positive impacts on different sectors are dependent on an unbiased and normal design of theGST.
- A study by Nitin Kumar (2014) "GST – A way forward" suggested that implementing GST would help in removing the current indirect tax system and is expected to encourage an unbiased tax structure that is indifferent to geographical locations.

4. Objective of the study:

A. To make study of Indian Indirect Tax System and understand GST.

B. To study challenges due to GST to different sectors of Indian Economy.

C. To study Impact of GST on different sectors of Indian Economy.

D. To suggest appropriate measures to cope with the adverse effects of GST on various stakeholders.

5. Research Methodology:

The study is based on secondary data. It emphasizes on detail study of the data taken from articles, journals and magazines, books, newspapers, government reports, and online websites providing information on Indian taxation, GST, and SMEs.

6. Impact of GST:

A. Overall impact on the Indian economy:

- There will be more transparency in the taxation system due to GST.
- GST may increase the flow of foreign direct investment.
- GST will increase government tax revenue by widening the tax base.
- It will lead to single-point taxation for the supply of goods and services.
- It will reduce unwanted legislation and waste of time for the judiciary system and the assessee.
- GST will increase competitiveness in the foreign market and reduce the final product prices.
- GST will facilitate ease of doing business in India

and reduce the cost of tax compliance.

B. Impact on the FMCG sector:

- The FMCG sector would surely be impacted because of GST as taxes affect the cost to the company.
- The large number of indirect taxes affects the decision of the company about manufacturing location and distribution of Goods. So, companies set up their manufacturing units and warehouses where they can gain tax benefits. FMCG Companies will get the benefit of tax savings in logistic and distribution costs as the requirement for countless sales depots will be eliminated.
- FMCG companies pay around 25 % tax and GST would help in the reduction of tax and increase savings.

C. Impact on the food and restaurant industry:

- In India production and distribution of food items is largely unorganized. So, the food processing sector will root difficulty in extending GST. In advanced countries like UK, Australia, and Canada, food establish a relatively small portion of the consumer basket and food is taxed at zero rates. Some countries even tax food at a standard rate which is as low as 3% in Singapore and Japan.
- In the level of international jurisdictions, no division is tired of the degree of processing of food. So, the gain of lower tax rates should also be applied to all food items in India regardless of the degree of processing.

D. Impact on the cement industry:

- Earlier, cement was taxed at 12.5 % excise and VAT rates between 12.5 to 15.5 %. GST tax rates on the cement will be 28 %, which is the same as the current tax structure.

E. Impact on equity investment and brokers:

- With the service tax being subsumed into GST, the rate of GST on financial services stands modified from15 % to 18 %.
- From a long-term investor's perspective, this may not be too significant since the overall shift is just about 3 basis points. These 3 basis points for short-term traders will change the economics of mixing their funds in the equity markets. It remains to be seen whether it affected the volumes and liquidity in the markets.

F. Impact on the IT sector:

- The Information Technology Sector is one of the GST benefit sectors though the GST rate for services has increased to 18%.
- Different factors like the accessibility of Input Tax Credits will cut down the operating expenses and, consequently, expand the Information Technology sector's general productivity.

G. Impact on the Infrastructure sector:

- The infrastructure sector consists of power, roads, ports, railways, and mining.
- A multiplicity of taxes will be removed with the implication of GST.
- It would increase the tax base for national interest and growth.

H. Impact on SMEs:

- In small-scale enterprises, there are three categories, those below the threshold need not register for the GST. Those between the threshold and composition turnovers will have the option to pay a turnover-based tax or they may opt to join the GST regime. Those above the edge limit will need to be within the context of GST. This provision is helpful to SMEs.
- In respect of the central GST, the situation is slightly complex and is expected to encourage compliance and which is also expected to widen the tax base, adding up to 2% to GDP.
- Before the implementation of GST, there was a requirement for Value Added Tax (VAT) registration, and the process was quite disoriented. However, after the imposition of GST, there is a requirement for only one GST registration.
- Goods and Services Tax (GST) provides a platform for small and medium-sized businesses as there is less confusion or complexity after the Goods and Services Tax (GST) provision.

I. Impact on the Telecom sector:

- Under the GSTregime, telecom services will be taxed at 18 % as against 15 % resulting in more load over the telecom sector.
- Data rates and call charges would go up due to GST.

J. Impact on insurance and banking sector:

- Insurance costs will increase as GST rates on various insurance policies have increased.
- Both the insurance and banking sectors will get costlier due to a rise in GST rates from 15 to 18%.
- It will increase the insurance premiums on life, health, life, and vehicle insurance.

K. Impact on Airlines:

- The GST Council has lowered the tax rate for economy-class flight tickets to 5 %. But the business class tickets will attract a higher tax at 12% after GST.

- As a result, domestic air travel will boost after GST with air prices reducing but the business class fares will be costlier. But it is only a marginal increase from 9% to 12%.

L. Impact on the automobile Industry:

- In India with a population of more than 130 crores, the automobile industry is a large business opportunity. The automobile is the GST benefit sector. A large number of indirect taxes cleared a path for a unified GST which will increase automobile deals.
- The GST rates for automobiles are decided at 28% on different types of vehicles which will impact the final prices of different vehicles.
- The impact of GST on the automobile industry is marginal in the two-wheelers sector. Broadly, the impact on prices for 81% of the market would be unaffected.

7. GST challenges in the Indian context:

- Government has to provide technical support by developing an efficient GST network (GSTN) for GST registration, GST return filing, GST tax payment, and so on.
- It also requires extensive training for staff for its efficient administration as per legislation. Awareness programs have to be started to bring all sellers under one tax regime.
- A proper understanding of GST, its provisions, and its impact on their business is required as taxpayers are still confused about it.
- Still, many provisions of GST are not clear to taxpayers. The classification of goods and services in various cases is still not clear.
- Yet many businesses are unaware of the accounting software and IT systems in concern with the new tax provisions.
- Efficient staff with technical skills, efficient GST knowledge, and training are not easilyavailable.

8. Findings:

GST is a big step in support of make in India and digital India initiative. GST will bring transparency as various indirect taxes are replaced by single indirect tax namely, GST and there will no hidden taxes. Due to a single tax system, economic distortions are removed which will contribute in the development of a common national market.

9. Suggestions:

For efficient implementation of GST in India, the government should frame plans and policies in this regard. The GST Council should try to prevent states from raising tax rates. For digitization of the GST system, a proper and efficient network system should be established.Special programs may be implemented to familiarize businesses and consumers with the functioning of GST.

10. Conclusion:

GST is a breakthrough in the Indirect Tax system of India. It has made the tax structure smoother to remove double taxation. The taxation policy of the nation plays an important role in its economic growth as it generates tax revenues to support government outflows on public services and infrastructure development. The introduction of a single indirect taxation system i.e., GST is an important step in developing countries like India. According to Moody's Investors Service, the Implementation of the GST is expected to lead to higher GDP growth and increased tax revenues for the Indian government. It has benefited by eliminating multiple taxes on goods and services and minimizing the chances of tax evasion. Initially, it is a complex system to understand but later it comes out as a long-term benefit for the country. There are various sectoral impacts of GST. Some sectors show a positive impact while others show a negative impact. Due to a long-term benefit scheme, there is a less immediate positive impact on Indian society and the economy. However, it is expected that there is an expectation of growth in the Indian Gross Domestic Product (GDP).

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