

## GST & Indirect Tax Reform- Impact On Economy

Onkar Jadhav,

Student, Department of Economics, University of Mumbai

**Abstract:** GST is the most controversial tax revolution in Indian taxation history.

The main purpose of this study is to find whether the GST has made impact on the economy as per expectations or just another tax.

Why it take so much long time from 1999 to 2017 to just implementation? there are oppose by the opposition party normal people and even sum economist also said GST won't work as expected then to GST is been passed and does it working properly for India?

So finally on the historic midnight of 1<sup>st</sup> July 2017 it implemented

GST had taken a long route to implement many economist finance minister and even different PM look after these there are many views and suggestion in the process.

From starting GST has made a change taxation policy there are many business come under the organized sector of tax. It will help the govt. to keep track of the records and unified tax also will help the business to gloom

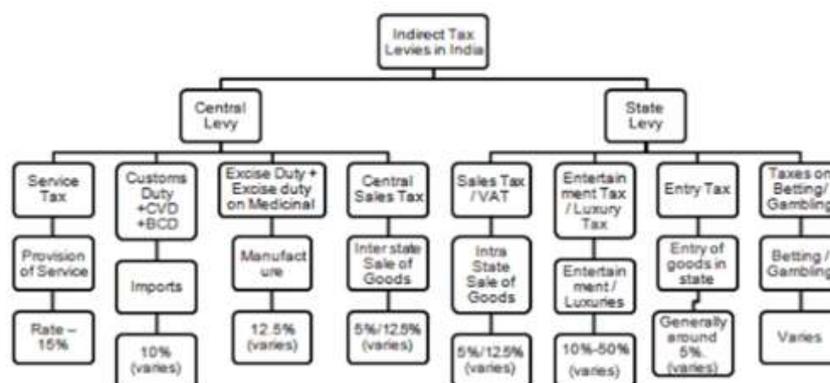
GST is making a one nation one tax policy in India.

Economy has a negative impact of GST in earlier stage the GDP is also decrease some organization have also suffer due to it many people lost their job due to firms is not able to work in taxes.

But at the end GST now starting to help the economy as the Manufacturing sector started to gloom again India's tax collection amount is starting rising.

### I. Introduction

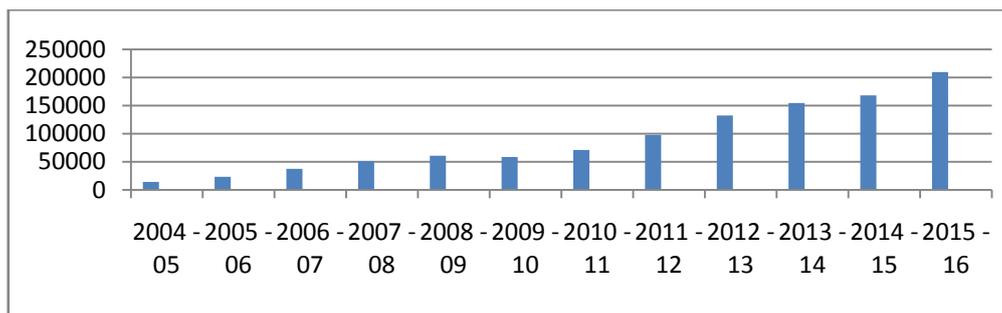
We have very complex tax structure in our country and as we are democratic country our state and central govt. are different and so tax also differ from state to state. So it take huge amount of time to unified all the tax which been collected by the state and country. The authority of levy a tax is derived from the Constitution of India which allocates the power to levy various taxes between the Central and the State. As per Article 265 of Constitution "No tax shall be levied or collected except by the authority of law". Therefore each tax levied or collected has to be backed by an accompanying law, passed either by the parliament or the state legislature. Tax policy in India is levied by the central and state government and local authorities also impose some tax on the people. Following is the table of some different indirect taxes imposed on people by both central and state government



Service Tax -

Service tax was a tax levied by Central Government of India on service provided or agreed to be provided. Presently from 1<sup>st</sup> June 2016 service tax rate has been increased to consolidated rate at 14% + 0.5% + 0.5% = 15%. Dr. Raja Chelliah committee on tax reforms recommended to introduce service tax in 1994.

Diagram given below is service tax revenue in past years ( InCrore )

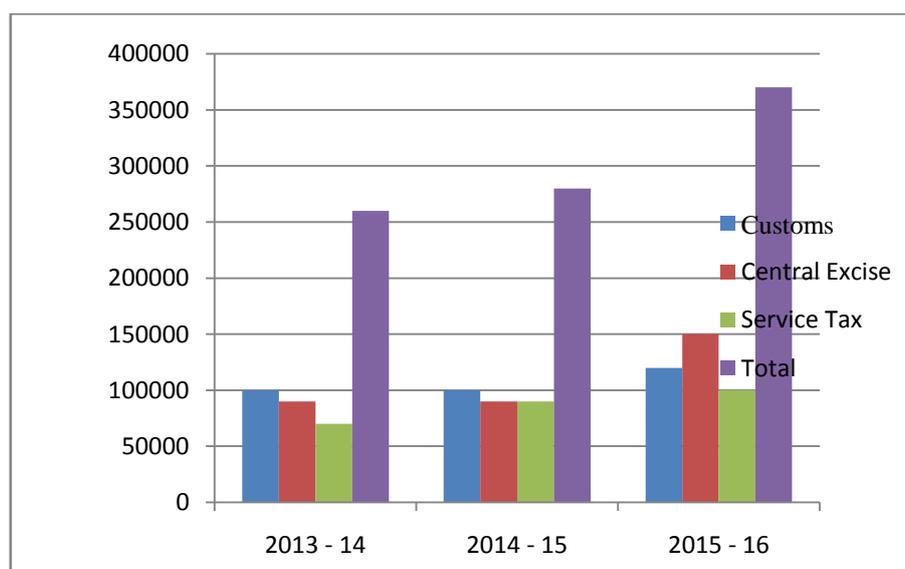


jagoinvestor.com

Custom duty -

A custom duty is the indirect tax levied on the import and export of goods in the International trade. It includes both import and export duties but as export duties contributed only nominal revenue, due to raising competitiveness of exports. Import duties alone constituted major part of the revenue its most probably 10% but it varies. There are different types of custom duty few as follows

- i. Basic Customs Duty
- ii. Counter veiling Duty (CVD)
- iii. Additional Custom Duty or Special CVD
- iv. Safe Guard Duty
- v. Anti Dumping Duty
- vi. National Calamity Contingent Duty
- vii. Education Cess on Custom Duty
- viii. Protective Duty



Source: Press information bureau Govt. of India. Above diagram is Indirect tax collection of Customs, Central Excise & Service tax from April to October 2015 (IN Rs. Crore)

Excise duty - An excise duty is on duty on manufactured goods which is levied at the moment of manufacture, The basic duty rate has been changes from 12% to 12.5% however education cess and higher education cess has been removed

Central Sales tax (CST) -

CST is a levy of tax on sales which are effected in the course of interstate trade or commerce.

According to constitution any state should not impose tax on intrastate trade only central govt. have authority to do it.

The Central Sales Tax Act 1956, was passed to implementation of the tax and its vary from 5% to 12.5%

The tax imposed by the state government are:

Sales tax -

In Maharashtra sales tax was first introduced in erstwhile state of Bombay in 1964. It was then a single point levy at the rate of 6 paise per Rupee payable at the last stage of sale.

After recommendation of Babubhai Patel Taxation Enquiry committee Bombay was made and Act was passed as Sales Tax Act 1959.

Maharashtra state – Division wise sales tax revenue gross receipts for the year 2005 - 06 to 2017 – 18 ( Up to July 2017 )

Division/Year	2013-14	2014-15	2015-16	2016-17	2017-18 (up to July 2017 )
Mumbai	41558.35	44524.47	45797.70	53151.98	20893.04
Thane	2221.21	2584.83	2884.21	3505.05	1451.29
Thane Rural	926.46	815.69	946.85	1004.17	397.43
Raigad	3110.26	3715.21	4159.36	4790.28	1929.04
Pune	9330.82	10245.77	11015.21	12073.40	4632.50
Solapur	476.45	548.28	614.47	701.79	253.86
Nasik	3068.51	3306.90	3597.50	4071.80	1591.78
Dhule	686.55	697.02	670.95	750.03	313.41
Kolhapur	1725.40	1900.98	1940.45	2266.20	820.77
Nagpur	3207.27	3633.61	3925.79	4323.41	1683.30
Amravati	593.62	666.76	617.18	737.25	308.56
Aurangabad	2452.01	2711.72	2501.01	2536.44	964.60
Nanded	420.32	431.81	453.61	613.39	239.23
Total ( in CR)	69777.23	75783.06	79124.29	90525.19	35478.79

www. mahavt.gov.in

Department of Sales tax

**Entertainment Tax –**

This is a tax imposed by the government on the feature Films

Bihar = 50%

Delhi=20%

Karnataka=30%

Maharashtra=45% ( nil for marathi films )

Maharashtra entertainment duty act 1923 was pass for this tax

In 16<sup>th</sup> Jan 2013 Movie ticket above Rs.251 and Rs.350 10% entertainment duty is imposed

City	Entertainment tax rates on across various cities
Mumbai	25%
Pune	20%
Bengaluru	10%
Chennai	10%
Hyderabad	20%
Mysore	20%
Kolkata	20%
Gurgaon	25%
Noida	25%
Andhra Pradesh	20%
Delhi	15%
Goa	15%

Source: Mera events

**Entry tax –**

Entry tax is a tax on the movement of goods from one state to another state. This is imposed by the state government.

It was introduced on 1<sup>st</sup> September 2000

its generally 5% and its varies

**Taxes on Betting / Gambling –**

As per section 115 BB of the Income tax Act the current rate of income tax ( As on financial year 2016 – 17 )

On poker winnings or winnings from any such card games etc. is 30% however there is an education and higher education cess payable on the taxable amount and hence the total effective amount of tax payable is 30.90%

## II. GST Policy In India

GST means Goods and Service Tax is an Indirect tax which was introduced in India on 1<sup>st</sup> July 2017 . France was the first country to impose GST in 1954 . China adopted in 1994. Russia adopted in 1991. GST

when applied it is applicable throughout India which replaced multiple cascading taxes levied by the central and state government. It was introduced as The Constitution ( One Hundred and First Amendment ) Act 2017.

The GST is governed by a GST council and its chairman is the Finance Minister of India

Tax rates are as follows 0%, 5%, 12%, 18% and 28%

There is a special rate of 0.25% on rough and precious and semi precious stone and 3% on Gold

#### History of GST

- It was all started back in 1999 when PM Vajpayee and his Economic advisers I.G.Patel, BimalJalan and C. Rangarajan made first attempt to design GST
- In 2000 PM Vajpayee set up a committee to draft GST law
- Asim Das Gupta Finance minister of West Bengal has been keep to design GST model and the panel did 80% of today's GST job
- In 2004 a task force conclude GST must be implemented to improve current tax structure
- In 2006 the Finance Minister is try to implement and introduce from 1<sup>st</sup> April 2010 but failed
- In 2007 to try to implement the GST Government reduce CST ( Central Exice Duty ) from 4% to 3%
- In 2008 Duel GST model will be applicable in India is fixed
- In 2010 Project to computerize commercial taxes launched but GST implementation postponed
- In 2011 Constitution Amendment bill to enable GST law introduced
- Standing committee begins discussion on GST but stalled it over clause 279B in 2012
- In 2013 standing committee presents its report on GST
- 2014 GST bill is been reintroduce in the Parliament by finance minister
- Finance Minister of West Bengal AmitMitra was become the head of GST department
- In 2015 GST passed in Loksabha but failed in Rajyasabha
- In 2016 GSTN goes Live
- In 2016 Amendment model GST law passed in both houses
- In 2017 four supplementary GST bills passed in Loksabha and approved by the cabinet
- Rajyasabha also passed four supplementary GST bills and GST implemented on 1<sup>st</sup> July 2017 ( Except J&K but then later J&K also accept it )

### **III. GST Model**

GST replaced several former taxes and levies which is implemented by central and state also.

The tax between of transactions of goods have also been removed and come under one head GST

It levied on all transactions such as sales, transfer, purchase, barer, lease and import and export

As we know India has adopted the duel model of GST

That means we will pay tax to the both central as well as state government to do it we have three terms:

CGST –

CGST means Central GST this amount will be payable to the central government

SGST –

SGST means State GST this amount will be payable to state government

IGST –

IGST means Integrated GST this amount will payable to state government

Example –

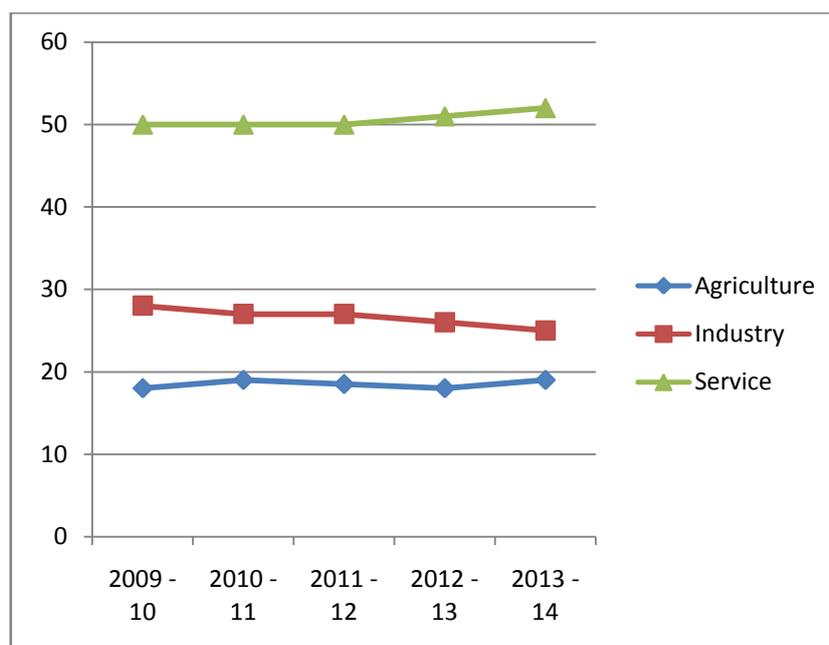
1. If a goods is made in one state and then sell in the same state then CGST and SGST will be applicable and total tax amount will be distributed in half and each half will be received as CGST and SGST

If a person buys CCTV camera then he have to pay 18% tax so then CGST will be 9% and SGST will be 9% On goods and that will mention in bill separately

2. If a good is made in a state and then sell it in another state then only IGST will be applicable and whole amount of tax will be given to Central government.

### **IV. Impact Of GST On Manufacturing Sector**

As we know the Indian economy is been divided into three parts Agriculture, Service and Manufacturing.



Manufacturing has emerged as one of the high growth sector in India. PM of India Mr. Narendramodi had launched ‘ Make in India’ to increase the sector and to become worlds 5<sup>th</sup> largest manufacturing country by 2020.

GST is one of the key policy charges that will have a direct impact on manufacturing establishment. Due to GST complex tax structure has been damper

Following GST has positive impact on manufacturing sector

Following are few reasons how it affects the manufacturing sector

1. Restricting of supply chain –

To align with the GST law, business will be required to realign their supply chains. However, this is a blessing in disguise. Till date, most supply chain structuring has been designed around. with a single tax regime this will change and supply chain structure will focus on driving business efficiencies

2. Removal of Cascading effects –

The old tax regime does not allow manufactures to claim tax credit on inter-state transaction taxes such as octroi, CST etc . This results in cascading of taxes an extra cost to the manufacturing company. And the manufacturing end up with transferring to customers. the unified GST regime will eliminate multiple taxes and reduction of price

3. Single registration process –

The old regime required manufactures to register each manufacturing facility separately, even in same state GST will simplify the plant registration process by allowing single registration process.

4. Improve cash flow –

Under the new tax laws, manufactures can claim input tax credit on input goods, which seems to be a positive sign for cash flow.

5. Entry tax sub summation –

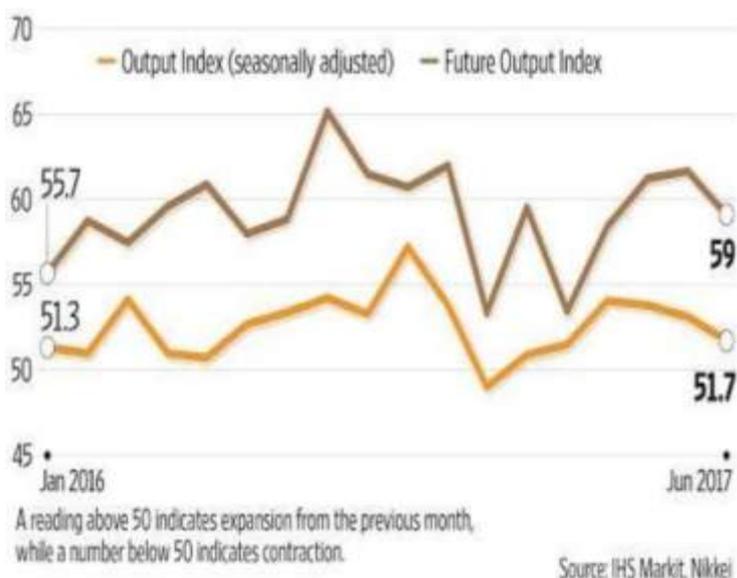
The Subsuming of the entry tax for inter-state transfer is a key reason for reduction cost of goods and service for example if one good is transfer from one state to another then the entry tax rate 5% of value of goods and due GST its get easy

6. Removal of multiple valuation –

In old tax there is a different amount for same goods in different states and due to GST there will be a single tax across the nation so the price is been unified.

### MOMENTUM FADES

Manufacturing sector feels the heat of GST implementation.

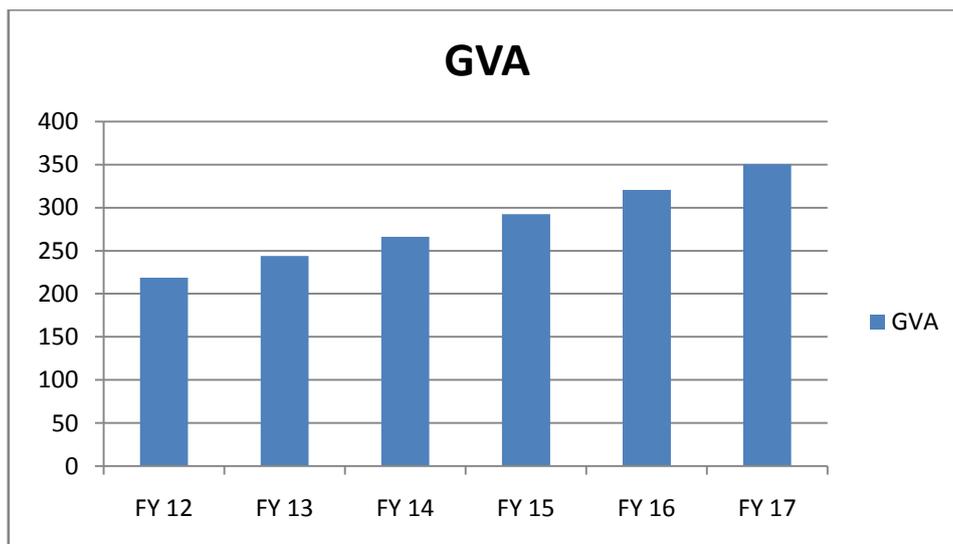


Segment	Current levies			Proposed GST rate			Difference
	Central Excise	VAT	Total	CGST	SGST	Total	
Small passenger cars (eg - < 1200 cc petrol and < 4000 mm)	8.00%	12.50%	20.50%	10.00%	10.00%	20.00%	(0.50%)
Mid-size/ luxury passenger cars (eg - > 1500 cc)	24.00%	12.50%	36.50%	10.00%	10.00%	20.00%	(16.50%)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

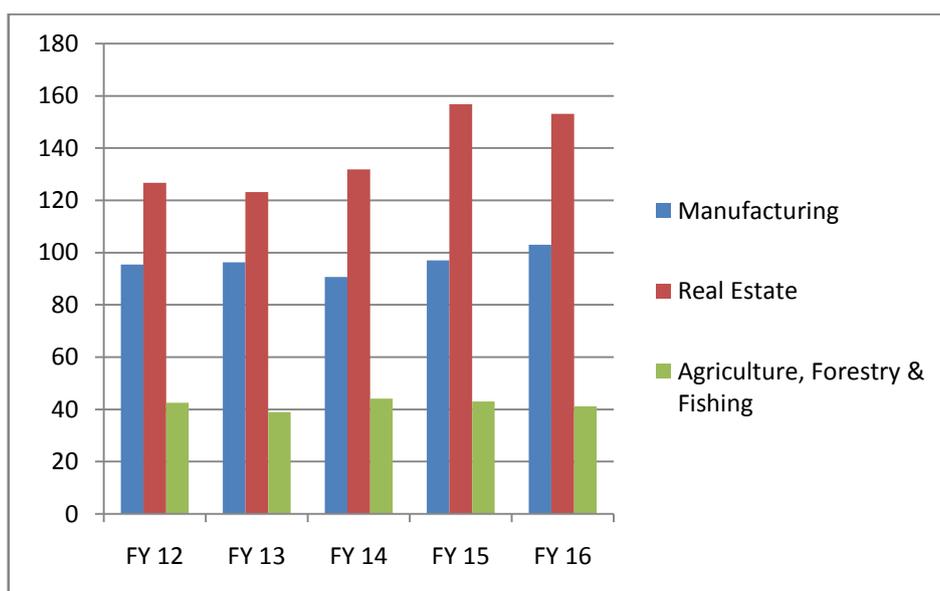
Illustration does not consider the following – (a) Other additional levies. Eg – NCCD, Auto cess etc. (b) Cascading impact of taxes. All goods, except tractors, are assumed to be taxable at highest GST rate proposed. It is assumed that tractors would continue to be exempt from CGST.

Above is the percentage that can be save after application of GST

GST levy on Textiles and Apparel	Percentage
Silk & Jute	0%
Cotton & natural Fiber	5%
Manmade Fiber	18%
All categories of yarn	5%
Manmade yarn	18%
Dyeing and printing units	18%
Embroidery and other job work service	18%
Fabrics, irrespective of fiber	5%
Apparels priced above Rs. 1,000	12%
Apparels price below Rs. 1,000	5%



- Indian manufacturing sector’s gross value added at basic prices based on 2011-12 price series was US \$ 350.4 billion in 2016-17
- Manufacturing sector grew at CAGR of 9.87% between FY 12 and FY 17
- The sector grew 9.33% in FY 17.



Manufacturing Sector performing with the other sector

- Indian manufacturing sector recorded highest gross capital formation behind real estate at US\$ 102.96 billion in 2015-16
  - The sector’s contribution to the Indian Gross Domestic Product was 16.51% in 2016
- [www.ibef.org](http://www.ibef.org)

### 1. Impact of GST on service sector

Indirect taxes have always been contributing more than direct taxes to Governments revenue. Services solely contributed a major contribution of service in tax also

Service sector does not only dominate the GDP contribute but also attracts the foreign investment in economy

Service sector has provided a large amount of employment in the country

The GST council has decided in its 22<sup>nd</sup> meeting that presently, anyone making inter-state taxable supplies, except inter-state job worker, is compulsorily required to register, irrespective of turnover, It has now been decided to exempt those service providers whose annual aggregate turnover is less than Rs. 20 lakh ( RS. 10 lakh in special category states except for J&K ) from obtaining registration even if they are making inter-state

taxable supplies of service. This measure is expected to significantly reduce the compliance cost of small service providers.

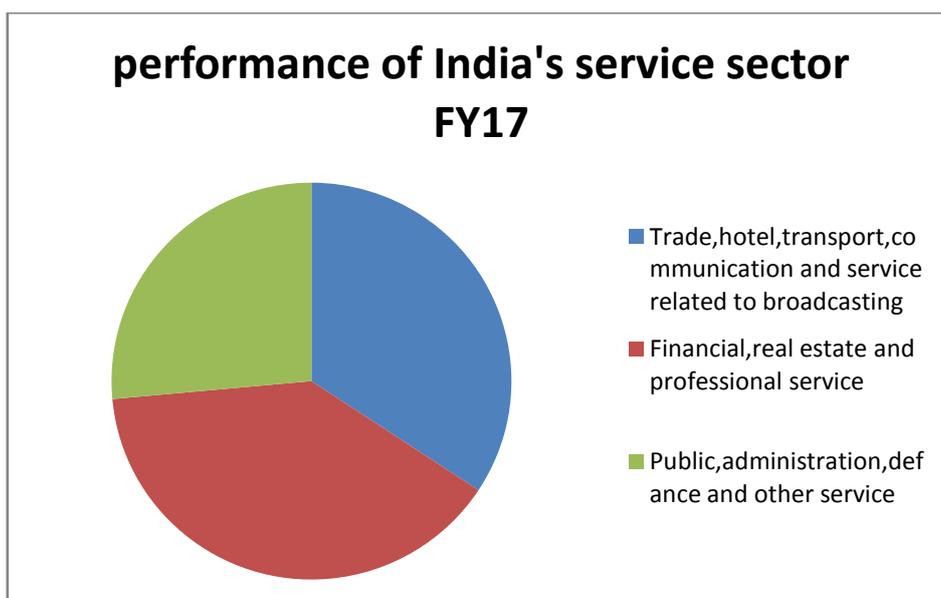
A GST council has changed the rates on services in 22<sup>nd</sup> meeting held on 6<sup>th</sup> October 2017 which include changes in service below.

**GST Rates on Services**

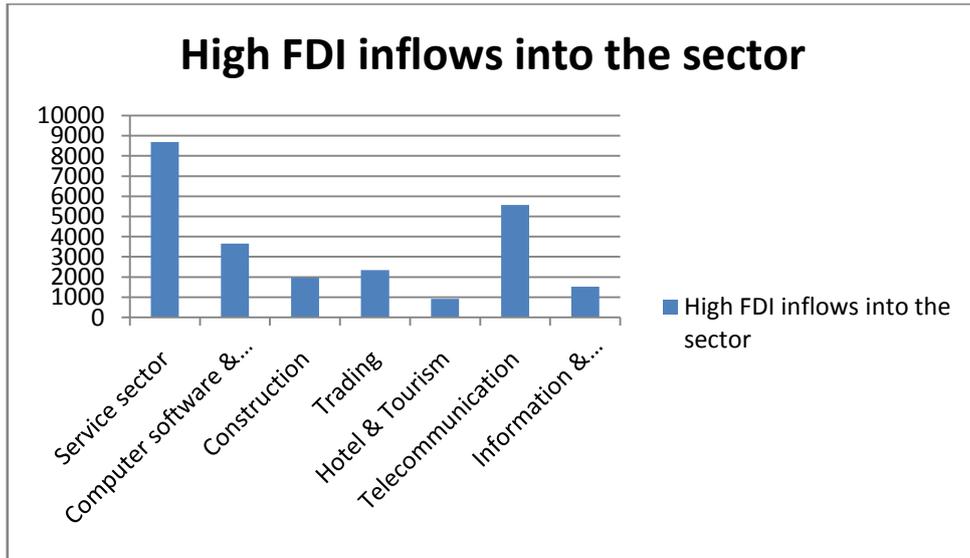
The following decisions taken by GST council under Chairmanship of Union Finance Minister ShriArunJaitely on 6<sup>th</sup> Oct. GST rates on job work service is being rationalize as follows

S. No.	Description of Service	Rate
1	Job work services in relation to all products falling in Chapter 71 (including imitation jewellery)	5%
2	Job work service in relation to food and food products falling under Chapters 1 to 22 of the HS code ( except packing of processed milk into packets )	5%
3	Job work service in relation to products falling under Chapters 23 of the HS code except dog and cat food put up for retail sale	5%
4	Job work in relation to manufacture of umbrella	12%
5	Job work in relation to manufacture of clay bricks falling under	5%
6	Service by way of printing on job work basis or on goods belonging to others in relation to printing of all goods falling under chapter 48 or 49	5%
7	Service by way of printing on job work basis or on goods belonging to others in relation to printing of all goods falling under chapter 48 or 49	12%
8	Service by way of printing on job work basis or on goods belonging to others in relation to printing of all goods falling under chapter 48 or 49 other than those which cover under 6 & 7	18%
9	Service by way of printing on job work basis or on goods belonging to others in relation to printing of all goods falling under chapter 48 or 49 which attract GST 5% or nil, paper used for printing belong to printer	12%
10	Service by way of printing on job work basis or on goods belonging to others in relation to printing of all goods falling under chapter 48 or 49 which attract GST 12% , paper used for printing belong to printer	12%
11	Service by way of printing on job work basis or on goods belonging to others in relation to printing of all goods falling under chapter 48 or 49 which attract GST 18% paper used for printing belong to printer	18%
12	To issue a clarification with regard to classification of printing products	

In previous tax regime service tax was applicable at rate of 15% on service rendered which include 0.5% for swatch bharatcess and 0.5% for krishikalyancess. It has been extended at 18% making the service and works contracts costlier. Revenue sector also mentioned the level of taxation has been increased in last GST structure. In the previous tax system both central and state govt. had right to collect tax according to their rights but with the introduction of GST regime, the double taxation effects due to disputed goods and service in the previous tax system has been eliminated. Telecom, IT-BPM showcase worthy performance in FY 17



- Telecom with increase in connection reflection of Jio effect
- Aviation passenger increased 17.3% in FY 17



- The share of the service sector is 60.7% in 2016-17
  - In 2016-17 growth rate of FDI inflow reduce to 8.7% due to negative growth
2. Other side of GST  
 “Different taxes confused foreign investors; we are getting rid of it”

-PM NarendraModi

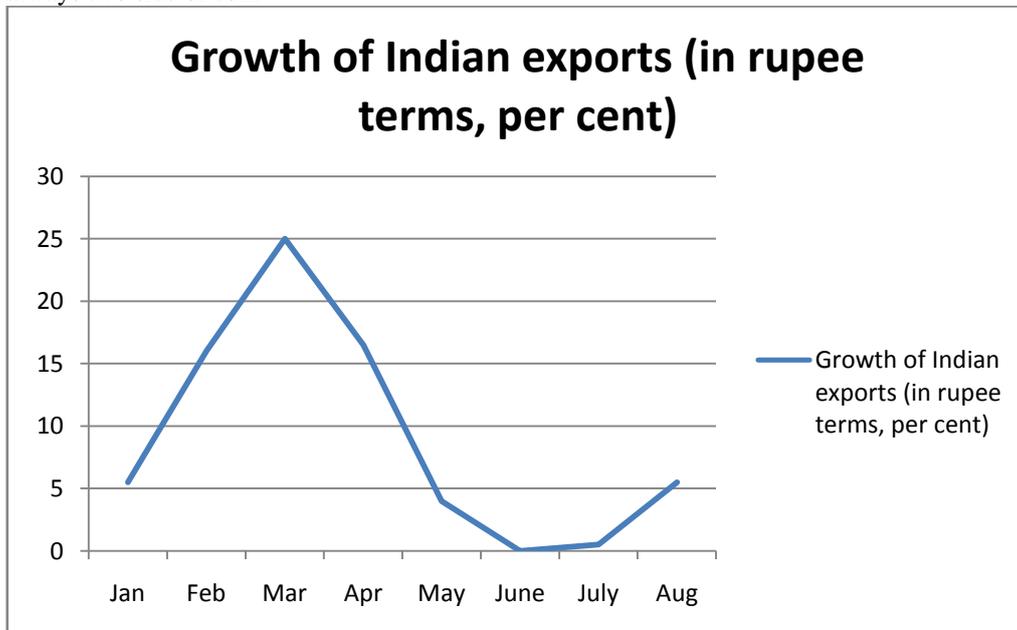
As per PM Modi says there are different tax which influence companies to established plants in India which include different taxes in different states and different registration process in every state which led to cascading effect of tax and due to different process more time also invested.

Due to this and many other factors such as unskilled labor and lack of infrastructure are also sum reasons which led to the shifting of companies in other countries.

So due to GST taxation policy and registration process is also get simple and it not only save the cascading effects but also save the valuable time spent on the filing form.

In GST most of work can be done online and it can led to removal of officer raj.

There is always two side of coin



-www.scroll.in

Indian exports were not doing particularly well in the pre-GST months of the year but the rate of export growth in rupee terms slowed in March – July and raise again in August

Economic activity in the country lost some peace amid GST related disruption but underlying growth momentum remains strong and country may clock 6.7% growth this fiscal year says Morgan Stanley report

India's economic growth slipped to three year low of 5.7% during April – June

But in India implementation of GST was not smooth the Govt. have to face various issues there are some organizations which oppose the GST that are follows :-

On 16<sup>th</sup> June 2017 Traders with support of 100 traders association hit the street in Gujarat protesting against GST. The group of traders want the withdrawal of GST of 5% on cloths

On 9<sup>th</sup> Oct. 2017 Truckers held the strike of 2 days it was called by the All India Motor Transport Congress (AIMTC) protesting against the GST on Diesel

On 21<sup>st</sup> Aug. 2017 Bengal's Sweet shops stayed shut to protest against GST. 1.5 lakh shops closed for 24 hours. They protesting against the GST applied on chocolate sweet 28%

On 5<sup>th</sup> July 2017 Tamil Nadu Cinema halls shut down to protest against GST of 18% on tickets below Rs.100 and 28% on tickets above Rs.100

## **V. Conclusion**

As per my papers GST is really become a game changer. The tax collection amount in India is been raised significantly as per Nitiayog. Some organizations have suffer in starting stages as the website of GST is been crashing in 1<sup>st</sup> starting months but the website is back on track.

Due to GST and Make in India campaign more foreign companies is now taking interest in India.

As the PM Modi said its India's biggest move since Independence. and it's not just a tax but a step towards economic reform. Buyers will get benefit, more undisclosed organizations and goods can be monitored and due to it there will be less tax evasion.

Overall GST is good for India. It need some time show up his effects but India will be benefited.

## **Source**

- [1] <http://www.cbec.gov.in/htdocs-cbec/gst/index>
- [2] <https://taxguru.in/category/goods-and-service-tax/>
- [3] <http://www.thehindu.com/business/Economy/gst-the-untold-story/article21827554.ece>
- [4] <http://www.thehindu.com/business/Economy/what-is-gst-and-how-will-it-affect-you-all-your-questions-answered/article19184910.ece>