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ROLE OF GST AND ITS IMPLICATION IN INDIAN ECONOMY

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ABSTRACT

Goods and Services Tax or GST is a greatest type of tax reform which has been introduced in India since 1st July, 2017 through 122nd Amendment of the constitution, leading India to a unified market. Goods and Services Tax is an undertaking by the Government of India to stimulate economic growth in India by transforming the indirect tax system to a free flow of goods and services. It is a comprehensive tax, multi - state and destination based tax that is imposed on manufacturing, sale and consumption of goods and services at the national level. Goods and Services Tax was implemented on the notion of ***"one nation, one market, one tax"*** *is applicable to all transactions of goods and services which is directly to be paid in accounts of centre and state separately ; eliminating multiple taxes, reducing tax evasion, cascading the effects of taxes and also corruption by bringing more transparency in the collection of taxes and hence leading to increase in government revenue and Gross Domestic Product (GDP) of the country. Currently there are 160 countries worldwide who implemented Goods and Services Tax until now.Most of these countries have a unified system of Goods and Services Tax but India adopted a dual system of Goods and Services Tax similar to Canada where taxes are levied by both centre and state. Goods and Services Tax works through a GSTN network that is a Goods and Services Network set up by the government as a private company under Section 25 of the Companies Act, 1956. Although new policies and programmes often meet with resistance and it leads to failure, unnecessary delay or distortion in implementation. Expectation from Goods and Services Tax was higher but it was not able to deliver the desired results, not only in India but also globally.*

INTRODUCTION

In this study an attempt has been made to understand the role of Goods and Services Tax (GST) and its impact on the Indian Economy. GST is a comprehensive system which is imposed on manufacture, sale and consumption of goods and services at national level. The

Government GST regime replaced excise duty, import duties, VAT and service tax regulations , along with other cess and surcharges. It is collected on value added at each stage of purchase and sale of goods in the supply chain without the state boundaries. " The success of GST depends on proper administration. It depends on its simplicity and efficient implementation which is very much difficult in a federal setup"[1].

Goods and Services Tax also known as Value Added Tax (VAT) or Harmonized Sales Tax (HST) was first given by Germany economist during 18th century, this service tax did not affect the cost of manufacture , but it was charged to the consumer directly. This system was finally adopted in France in 1954 by Maurice Laure[2] who was the first one to introduce VAT on April, 1954. Firstly, it only included large businesses but it was extended to all the business sector as the time passed. The main source of revenue for the government is the taxes that are paid by the citizens of the country, it can be direct or indirect tax. When the taxes are directly levied on an individual it is known as Direct Tax, whereas when the taxes are levied on two different persons then it is known as Indirect Tax.

India followed a complicated tax system earlier but with the introduction of GST all the indirect tax came under one umbrella ensuring smooth functioning of national market with high economic growth. GST is levied and collected at each stage of sale or purchase or services based on input tax credit method.

The indirect tax structure in India existed up-to 30-06-2017 which was based on three lists mentioned in the Seventh Schedule of the Constitution of India, that came into effect on 26-1-1950. These lists are mostly based on the Government of India Act,1935.

Indirect Taxes are those funds which the government needs for various different purposes in order to maintain law and order, defence, social/ health, services , etc. Government obtains funds from various sources, out of which one main source is taxation .

Tax is the price which we pay for a civilised society – Justice Holmes of US Supreme Court[3].

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[1] Sukumar Mukhopadhyay -Former Member, Central Board of Excise & Custom of Business Environment,in April 2008

[2] Joint Director of the French Tax Authority , General Management of Taxes

[3] Parashuram Pottery Works Co. Ltd. V. ITO (1977)106 ITR 1 (SC)

Indirect taxes are imposed on commodities before they reach the consumer, and are paid by those upon whom they ultimately fall, not as taxes, but as part of market price of commodity[4].

Direct Taxes are those that are assessed upon property, person, business, income, etc, of those who pay them.

India being a federal country adopts the concept of separation of power between state and centre to avoid conflict, dispute and ambiguities.

Across the Globe 160 countries have implemented GST as a unified system. But India, adopted a dual regime similar to Canada. India implemented 'Dual GST' regime for all the transactions of the goods and services that are made for the consideration that attracts three separate legislation namely CGST (Central Goods and Services Tax), SGST (State Goods and Services Tax) and IGST (Integrated Goods and Services Tax, which is collected by the Central Government) . the biggest advantage of GST is its economic unification.

According to the Constitution of India, Article 246[5] states that :

Article 246(1) specifies that parliament has exclusive powers to make laws with respect to any of the matters enumerated in List I in the Seventh schedule to the Constitution.

Article 246(3) states, that state government have exclusive powers to make laws with respect to matters enumerated in List II

[4] UOI v. Nitdip Textile Processors P.Ltd.(2011)

[5] Subject-matter of laws made by Parliament and by the Legislatures of States
246. (1) Notwithstanding anything in clauses (2) and (3), Parliament has exclusive power to make laws with respect to any of the matters enumerated in List I in the Seventh Schedule (in this Constitution referred to as the "Union List").
(2) Notwithstanding anything in clause (3), Parliament, and, subject to clause (1), the Legislature of any State * also, have power to make laws with respect to any of the matters enumerated in List III in the Seventh Schedule (in this Constitution referred to as the "Concurrent List").
(3) Subject to clauses (1) and (2), the Legislature of any State * has exclusive power to make laws for such State or any part thereof with respect to any of the matters enumerated in List II in the Seventh Schedule (in this Constitution referred to as the "State List").
Parliament has power to make laws with respect to any matter for any part of the territory of India not included [in a State]** notwithstanding that such matter is a matter enumerated in the State List.

In respect of matters enumerated in List III (concurrent list) both parliament and state governments have power to make laws.

The earlier provisions of the Constitution did not provide for imposition of Goods and Services Tax. Hence, constitutional amendment was required , The Constitution (One Hundred and First Amendment) Act, 2016, amendment introduced a national Goods and Services Tax (Goods and Services Tax) in India from 1 July 2017 whereas it was introduced as the One Hundred and Twenty Second Amendment Bill of the Constitution of India.

CHRONOLOGY OF GOODS AND SERVICES TAX

❖ In 1974 L.K. Jha committee reports suggested the introduction of vat VAT regime after reviewing the indirect taxation system in India.

❖ In 1986 Modified Value Added Tax (MODVAT) was introduced to tackle the problems of cascading effects of excise taxation.

❖ In 1991 Chelliah Committee was appointed by the Government of India to examine the structure of direct and indirect taxes recommended VAT/ Goods and Service Tax (Goods and Services Tax).

❖ In 1994 Service Tax was introduced in India finally.

❖ In 1999 Government set up an 'Empowered Committee' of State Finance Ministers (EC) which consisted representatives of 29 states was formed for the purpose of introduction of State VAT, while in the subsequent years uniform state sales tax rates were implemented .

❖ In 2000, the then prime minister Shri Atal Vihari Vajpayee introduced the concept of Goods and Services Tax and created a committee to design a model of Goods and Services Tax for our country.

❖ In 2002 , input credit against services of the same category was introduced, central level taxes were integrated by the introduction of 'CENVAT' (Central Value Added Tax) .

❖ In 2003 a task force was framed by the Central Government to look after the fiscal policies and budget management , which in the year 2004, recommended to replace existing tax regime of Central Level VAT and State Level VAT with Goods and Services Tax a comprehensive tax levied on all goods and services .it recommended to replace all indirect taxes except custom duty with VAT on all goods and services .

❖ In 2006, the genesis of Goods and Services Tax in our country was laid down in the historic budget speech of Rajya Sabha on 28th February, 2006 by the then Union Finance Minister Mr. P Chidambram , which was to be introduced on 1st April,2010, but due to political reasons it could not come in force.

❖ In 2008 - 2009 Empowered Committee finalized the strategy of Goods and Services Tax introduction in India , First Discussion Paper (FDP) on Goods and Services Tax was released by the committee and a report on Goods and Services Tax was prepared by the task force and submitted to the 13th Finance Commission.

❖ In 2014, 19th December 122nd constitutional amendment bill was introduced in Lok Sabha which got passed on 6 May, 2015. This amendment bill was introduced in Rajya Sabha and it was referred to the special committee .

❖ In 2016 Goods and Services Tax council was formed and it recommended a law on Goods and Services Tax

❖ In 2017, it finally was passed by the Rajya Sabha and the president gave assent to Four Goods and Services Tax Bills, council approved Anti - Profiteering Mechanism and Goods and Services Tax was finally introduced.

There was a burden of '*tax on tax*' that existed in the earlier tax system where central tax of the Government of India Sales Tax system of the State Government both were imposed on the people. However, after the introduction of Central VAT that is 'CENVAT' has removed the cascading burden of 'tax on tax' to an extent by providing a 'set off' for tax paid on inputs and services up-to the stage of production , and there has been a improvement over pre-existing Central Excise Duty. The introduction of VAT in state removed the cascading effect as well as tax paid on previous purchases and an improvement is seen over the previous sales regime. But all these method have certain kind of incompleteness. CENVAT thus not include chain of value addition during its distribution , below its production stage. It did not included Central taxes like Additional Excise Duties, Additional Custom Duties, Surcharges, etc. And it thus kept benefit of service tax set - off and comprehensive input tax out of the reach of dealers or manufacture. Similarly state level VAT scheme, there are several taxes like Luxury Tax , Entertainment Tax , etc. was not subsumed in VAT. Also, VAT had no integration on goods with tax on services at the State Level with the removal of cascading effect of service tax. With the implementation of GST both at the state and central level burden of taxes is comprehensively removed and the continuous chain of set off from service provider's point as well as original producer's point up-to the retailer's level established and it removed the burden of all cascading effects. Also all the major central and state tax integrated to the GST , reducing multicipility of taxes, bringing down the compliance cost. The final consumer will only bear GST charges that is charged on them by the last dealer in the supply chain, with set off benefit at the previous stages.

The introduction of GST and the announcement of demonetization whose aim was 'war on black money' has created a negative impact on the economy. Demonetization is the act of stripping currency unit of its status as legal tender. The old unit of currency is retired and are replaced with new ones. On 8th November , 2016 the Government of India and the then Prime Minister Mr. Narendra Modi, announced demonetization of '500' and '1000' rupees notes with its effect from the next day. It aimed to plug terror financing , unearth the 'black money' , expansion of fiscal policy of government, reducing interest rates in banking system ant to create a 'less - cash economy' . Whereas GST was launched at midnight on 1st July , 2017 by the then President of India along with the Government of India. It was introduced to reduce the tax burden falling on the companies and the consumers. It is one indirect tax for the entire country with a notion of ***"one nation, one market, one tax"*** **.**

"The two successive shocks of demonetization and the GST had a serious impact on growth in India. Growth has fallen off interestingly at a time when growth in the global economy has been peaking up"[6]. the impact of GST on small, micro and medium enterprises need to be addressed. more than growth, jobs and employment has been affected. After announcing a shocking demonetization , the government introduced GST in such a haste that it gave a much huge blow to the economy. Now, during that time the bigger companies preferred to purchase goods from the suppliers as the could give GST receipts over purchasing it from MSME's. Also , imports were preferred over sourcing from small Indian companies which lead to flooding the market with Chinese Imports.

Earlier the Central Government used to levy tax on manufacture (Central Excise Duty), provision of services (Service Tax) , interstate sale of goods (CST which was levied by the centre but was collected and appropriated by the State) and State Government levied tax on retail sales (VAT) , entry of goods in the state (Entry Tax) , Luxury Tax , Purchase Tax , etc. which clearly shows multicipility of taxes on the same supply chain. The VAT laws in our country was with disparate tax rates and dissimilar tax rates and practices divided the

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6 RBI Governor Raghuram Rajan ~second Bhattacharya Lectureship on the Future of India

country into separate economic spheres. The barriers of tariff and non - tariff hindered the free flow of trade throughout the country, also large number of taxes created high compliance cost for the taxpayers as they were made to make number of returns ,payments, etc.

GST is a unifier tax which integrate various tax that was levied by the Centre and State , providing a platform for forging an economic union of the country. Another significant feature of GST is that input tax credit is available at every stage of supply for the tax paid at the earlier stage of supply. This feature mitigates the cascading effect or double taxation in a major way. This tax reform is supported by extensive use of Information Technology [through Goods and Services Tax Network (GSTN)], which leads to a greater transparency in tax burden, accountability of the tax administrations of the Centre and the States and also improve compliance levels at reduced cost of compliance for taxpayers.

When we register in GST we get a unique number called GSTIN(it contains taxpayer's identification number and other requisites in a single enrollment number) which can be used to 'n' number of business within one state. In case of other state the state code changes while the PAN remains same, GST is not sensitive in the kind of business a person does whether manufacturing or trading or service it is immaterial. The thing that matter is some kind of supply is made to other person. The concept of vertical business in GST where one can make different registration using a single PAN for different nature of business, although we can apply for different registration number for different business . As per Section 23(2) a person having multiple business verticals in a state may obtain separate registration. Hence, it is not obligatory but it is optional to register each of the business vertical of a state.

GSTN was developed as a common portal for GST where it provides a shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders for implementation of GST. It forwards the returns to the centre as well as the state with computation of IGST , verifying the details filled with the bank details also it provides with the analysis of tax payers profile. The GSTN software is developed by Infosys Technologies and Information Technology network that provides the computing resource is maintained by National Informatics Centre (NIC) . "goods and services network" (GSTN) is a non - profit organization formed for creating sophisticated network, accessible to stakeholders, government and taxpayers to access information from a single source i.e. portal. The portal is accessible to Tax Authorities for tracking down every transactions , while taxpayers have the ability to connect for their tax returns.

GOODS AND SERVICE TAX COUNCIL

The Goods and Services Tax Council has been created in September, 2016 under **Article 279A** of '*The Constitution of India*'. It is constitutional body created for taking policy decisions about introduction and implementation of GST, including about exemptions, tax rates and tax credits. It is an apex member committee to modify, reconcile or to procure any law or regulation based in context of Goods and Services Tax in India. The council is headed by the presiding Union Finance Minister who in 2020 is Nirmala Sitharaman assisted with finance ministers of all states of India. This council is responsible for any kind of changes in rule or rate of Goods and Services in India.

Section 279A of 'The Constitution of India' states about Goods and Services Tax Council :(1) The President has to constitute a council called as Goods and Services Tax Council within 60 days from commencement of the act.

(2) The council consists of :-

The union finance minister as the Chairperson, the members shall consist of the Union Minister of State in charge of Revenue or Finance and the minister in charge of Finance or Taxation or any other Minister nominated by each State Government . The members of the council has to appoint one among themselves as the Vice Chairperson of the Council for a decided period.

It consists of total 33 members, out of which 2 members are from centre and 31 members are from 28 states and 3 union territories with legislation.

(3) The council can recommend the Union and the States on -

(a) Taxes, cesses and surcharges that are levied by the Union, States or local bodies which shall come under the Goods and Services Tax;

(b) The Goods and Services that need to be included or excluded from the Goods and Services Tax;

(c) Modeling the laws, principles of levy, apportionment of supplies in the course of inter-state trade or commerce given under Article 269A and the principles governing the place of supply;

(d) The threshold limit below which goods and services need to be exempted from tax;

(e) The rates which also includes the floor rates with bands of goods and services tax; (f) Special rates for specified period in order to raise resources during natural calamity or disaster.

(4) Alcohol for human consumption is the good on which GST is not applicable, on petrol and petroleum products GST may apply at a later date on petroleum crude, high speed diesel, motor spirit also called petrol, natural gas and aviation turbine fuel.

(5) The council shall be guided for a harmonised structure of goods and services tax and for the development of harmonised national market for goods and services.

(6) One half of the total member shall constitute as the quorum of the meeting, quorum is referred to as the minimum number of member required for a meeting to start , without the required number the meeting can not start.

(7) The decision of the goods and services tax council shall be taken in the meeting by majority of three fourth of the votes of the members who are present and voting according to the principles i.e.

(a) The vote of central government have the weightage of one-third of the total votes cast, and

(b) The votes of all the State Governments taken together shall have weightage of two-third of total votes cast,

in that meeting.

(8) No act or proceeding of Goods and Services be invalid for following reasons :(a) Due to vacancy or any defect in constitution of council;

(b) If there is any defect in appointing a person as member of the council;

(c) Any procedural irregularity of council that does not affect the merits of the case.

(9) In case of **any dispute** the Constitution (one hundred and first amendment) Act, 2016 has provisions for the goods and Services Tax Council to establish a mechanism to adjudicate any dispute -

(a) between the Government of India and one or more States; or

(b) between the Government of India and any State or States on one side and one or more other States on the other side; or

(c) between two or more States; arising out of the recommendations of the council or implementation thereof.

IMPLICATIONS OF GST

The GST has impacted the Indian economy in different ways, seeing the overall impact it can be said to be a negative one. But, if we classify the impacts of GST sector wise we can observe both a positive as well as negative.

1. In **Technological Sector** as well as the **Telecommunication Sector**, the system of GST has made it more expensive as the tax rates have increased from 14% to 18-20%. Due to increase in price of software products it has created a neutral or slightly negative impact on the sector as a whole. Increase in the taxes will directly affect the customers creating a adverse impact on this sector.

2. In **Pharmaceuticals Sector** the companies use to pay taxes at the rate of 15-20% but it reduced to less than 15% after introduction of GST having a positive impact on this sector.

3. There was a huge boom in the **Automobile Industry** who used to pay taxes of 30 - 45% which reduced to 18% after the introduction of GST having a huge positive impact for the automobile industry making profits for both manufactures and dealers as well as the consumers. The social status and the standard of living of the consumers gets uplifted.

4. In **Agriculture Sector**, GST played a very crucial role to enhance the timeline, reliability and transparency in supply chain mechanism. The cost of heavy machines needed in agriculture also got reduced helping the farmers and the retailers. Thus having a positive impact in this sector.

5. For a **Small and Medium Enterprises** owners and manufactures had to look after various taxes that were required to be filled , so they used to go to different tax departments in order to fulfill their tax liabilities. Earlier the tax levied by the state and centre amounted to approximately 32% but after the introduction of GST it has reduced to 18 - 22%.

6. GST made it easy to start a new business in India , earlier for a **Start-Up**, the business had to obtain VAT registration which was different in different states, creating many problems in its procedure.

7. Since, **Entertainment Sector** tax is subsumed under GST the rates that is required to be paid by the customer has reduced for some states as the entertainment tax was levied on the consumer by states itself, so it was either high or low than the GST. But overall, it had a positive impact on this sector due to increased digitization and decrease in the cost of data access.

8. In the **Real Estate Sector** , introduction of GST had a positive impact as all the indirect tax has been subsumed into GST , thus reducing the property price as well as the cost of construction. This sector contributes largely to the country's GDP and is also second in number which generates employment after the IT department.

9. It was a double profit for the **Cement Industry** involved in manufacturing due to the decrease in the tax rate of cement to 18 - 20% and also the logistics tax.

10. From the **Consumer's** view, there is a great in terms of a reduction of overall tax burden on the goods, which was estimated as 25%-30%, free movement of goods from one state to another without stopping at state borders in order to pay state tax or entry tax standing for hours and not to forget reduction in paperwork making it eco-friendly.

11. Tax payers with an aggregate turnover up-to Rs. 10 lakh in a financial year are exempted from paying the tax.

12. **Exports** in GST is treated as zero rated supplies which refers to items that are taxable , but the rate of tax is nil on their supplies however credit of input tax credit is available and it is also available as refund to the exporters. In other words, GST is not levied on goods and services which are exported outside India. There is a general motto that taxes should not be exported. So even if the tax is paid but the goods is delivered outside India , there would be refund of the tax imposed.

13. **Imports** of Goods and Services will be treated as inter-state supplies and IGST will be levied on imports of goods and services into the country.

PROBLEMS FACED DUE TO GST

- Well documented findings, studies and observations of individuals and group of individuals in an organization has revealed that any organization and its members **resist to change**. The resistance can be over, implicit , immediate or deferred. For instance , threat to go on strike in order to resist change is a kind of overt act whereas increase in the errors or mistake is a kind of implicit resistance to change. While resistance is not always dysfunctional it can be contributed to better decision making and can be a source of functional conflict, it often obstructs beneficial changes. Hence , the legislature needs to identify the sources who is resistant to change.
- Introduction of **new policies and programmes** generally meets with failure , unnecessary delays or distortion in implementation. When GST was introduced , the situation in the country was that the change in the tax system was necessary to reduce defaults in tax payments by the citizen ,to unify the various other taxes into one and also most importantly on one date, but there was a normal tendency of human to resist the changes, which created conflicts. To manage this perplexing problem of the change the executive had to find ways.

- People find it **inconvenient** to learn new things , they are comfortable with the existing norms and when they incur failure in learning they fear of loosing their seniority in certain fields. These changes are often resisted by the people who are less educated or who rely on their professional experience or those who are not inclined to take risks, these people oppose to changes.
- Thus, when GST was introduced the legislature and the executive made sure that it is well **explained** as to how one needs to register itself in GSTN, file the tax, how it is going to work , how one has to fill the forms of GSTR,how to file returns, what would be the last date to do so and if not filled by that time then how much late fee need to be paid online and the filing of returns monthly as well as quarterly.
- There was no need to rely on other person or going from one place to other. The authorities made sure that few people who had the knowledge or who developed such software explain the public in large as to what need to be done. But, as we say everything can not be perfect and one can not satisfy every one needs, there were sections of people who were resistant to this change and it was for logical as well as genuine reason.
- One of the main factor was the facility of **internet along with the network** which is not available in every corner of the country, people who are less educated and they do not know even how to operate computers they found it difficult to cope with this new system. This made those person who earlier were giving their taxes timely and without any difficulties independently, dependent on other people who had the accessibility of computer and internet as well as knowledge. The government showed a great leadership quality which was effective by introducing systematic training of personnel and specialized staff helped in overcoming this resistant to change.
- However , the result which was expected was that it would provide positive impact on the economic growth , but it got hampered due to demonetization by transforming into the new taxation system which would allow free flow of goods and services within the country and also eliminating the cascading effect of the taxes.
- India has highest number of different GST **slab rates** in the world with 0% , 5% , 12% , 18% , 28% +cess. Also there are different slab rates of gold and precious stones , whereas alcohol , petroleum products, stamp duties on real estate and electricity duty which is excluded from GST and are to be taxed by different states accordingly.

- There are some states who still charge their **own state tax** , like Tamil Nadu has levied entertainment tax to local government of over 28%.
- The **IT structure** created by India for filling GST is very complex and is difficult to understand for a simple businessman, making them dependent on other people who have increased their rates of filling GST.
- Due to **technological problem** the Exporters are not getting their refund which is creating working capital problem and also the manufacturers are suffering due to this.
- This shows that the implementation of GST by the government was made without vision and any prior study due to which many problems are faced by the manufacture, exporters and businessman which is being **Criticized and Protested** by the people.

CONCLUSION

As we have already discussed every new change is resisted , GST was also resisted by people who found it difficult to implement. The introduction of GST was system to unify the indirect taxation system in India. To implement the system the government must have observed different countries who follow this system and there parameters which led to its difficulties. Although GST has simplified and unified the tax system into one portal where it could be one time execution from previous multiple taxes and multiple dates. The bill was to benefit the society but it showed negative impact as the price of essential goods and services increased creating a problem for the country. There has been a **decline** in the **GDP growth rate** of the country from **8.17% in 2016** financial year to 7.17% in 2017 and **6.98% in 2018** which clearly indicates that the government implemented this system of GST without proper planning leading to a decline in the economy of the country. Once the GST is implemented successfully that is when all the countrymen are able to use the system properly and smoothly, the country will be able to experience the advantage of the unified tax system with easy input credits and also reduced compliance making the nation into a single market where goods will move freely within the country taking a step forward to ease of doing the business.