

## **A Study of the Effects and Difficulties of GST on Different Elements of the Indian Economy**

**\*<sup>1</sup>Dr. Shreekant Vyas**

<sup>1</sup>Assistant Professor, (ABST) Government M.S. College, Bikenar, Rajasthan, India.

### **Abstract**

The Indian economy is proof that growth may be accelerated in a relatively short amount of time. The primary source of revenue for the government is taxation, both direct and indirect. Dr. Vijay Kelkar, chairman of the 13th Finance Commission, has proposed that the foundation for the implementation of the Goods and Service Tax (GST) in India be a reasonable, scientific, and modern taxation structure in line with developed nations. The design and implementation of the tax system is intended to promote national growth. A country's economy will grow when its tax system makes doing business simple and eliminates the possibility of tax evasion. The main and largest indirect tax change since 1947 is the Good and Services Tax (GST). The primary goal of GST is to replace existing taxes including sales tax, excise tax, and value-added tax. On the production, sale, and consumption of products and services, it will be enforced. The introduction of GST is anticipated to have an impact on the country's current tax system and to bring about economic unity. This essay has focused on the history, goals, and effects of the planned GST on several facets of the Indian economy. The benefits and opportunities offered by the GST were also a major emphasis of the report. The article studies and formulates a specific conclusion at the end.

**Keywords:** Fiscal federalism, indirect taxation, and tax reform, GST

### **Introduction**

The word "tax" comes from the Latin word "taxare," which means to estimate a forced payment to state revenue, levied by the government on employee income and business profits or added to the price of particular goods, services, and transactions. An imposed input collected by legislative authority is a tax. Direct and indirect taxes are both a part of the Indian tax system. One of the Indirect Taxation measures that has contributed the most is the Goods and Services Tax (GST). Due to the inability of public goods to be fairly priced in the market, taxes are the only source of funding for them. Governments alone are capable of providing them, thanks to tax revenue. GST, or goods and services tax, is a value-added tax imposed on the majority of domestic consumption in Canada. The tax is imposed in order to bring in money for the government. Consumers contribute to the GST, but businesses that sell the products and services are responsible for collecting it and sending it to the government. India is one of the 123 nations in the globe that have adopted the VAT mode since it was implemented at the federal and state levels. GST is a fully comprehensive indirect tax levied on the production, sale, and consumption of products as well as services on a national basis. All indirect taxes that the Central and State governments of India would impose on goods and services under GST. It aims to cover a wide range of the majority of goods and services. In 1954, GST was first introduced to the world in France. The Baghchi Report, published in 1944, proposes the implementation of a "Value Added Tax (VAT) for taxing the Goods and Services in India.

With the intention of designing the GST model and directing the IT back-end awareness for its implementation, West Bengal's Asim Dasgupta was appointed finance minister in 2000 as part of the Vajpayee Government's continued discussion on the GST. Vijay Kelkar actively advised the incorporation of indirect tax into the GST in India in 2004. In his Budget later that year, Union Finance Minister Shri P. Chidambaram advocated the introduction of the GST by 1 April 2010.

The Constitution (122nd Amendment) Bill was introduced in the Parliament in December 2014.

The much-delayed Constitutional Amendment Bill to impose the Goods and Services Tax (GST) was approved by the Lok Sabha on May 6, 2015. The new framework is very positive and takes the needs of the average person into account. The GST Council will finalise the GST Rules and GST Rates in 2017

### **New GST Form**

Putting in place VAT/GST There is a GST/VAT system in over 160 nations worldwide. For the purposes of taxation, the GST scheme does not distinguish between commodities and services. It states that all commodities and services are subject to the same tax rate. India is currently planning to generate 8 Lakh Crore in revenue for the government through tax rates of 5%, 12%, and 18%. The all-powerful GST Council settled on a tax structure of 5%, 12%, 18%, and 28%, with lower rates a four-tier GST for necessities and the highest for luxury items. Under the GST structure, input tax credits (ITCs) would be available for both the sale of commodities and the provision of services to individuals. Given its effects on corporate

earnings, GST has attracted the market's attention, which has been one of the most important aspects. Many items have been retained under the government's 18% tax bracket.

### Objectives of the Study

- To investigate the conceptual foundations of the GST in the context of India
- To examine the difficulties and consequences of the GST on the major Indian economic sectors.
- To suggest methods to mitigate the adverse consequences on different stakeholders

### Research Methodology

The study focuses on a thorough examination of secondary data that was gathered from numerous publications, journals, and government reports published on various websites that were specifically devoted to the Goods and Services Tax.

### Impact of GST on Different Economic Sectors

GST benefits the economy and a number of industries, including the following:

#### Effects on the Food Industry

Any tax on food would be regressive in nature because food makes up a sizable amount of lower income people's consumer expenses. Due to India's heavily unstructured food production and distribution system and the fact that most other nations tax food at a lesser rate in consideration of justice and equity on a global scale, the food processing industry will have trouble implementing GST. Food makes up a relatively minor fraction of the consumer basket and is taxed at 0 percent in places like Canada, the UK, and Australia. Even in other nations, food is subject to a standard rate of taxation that, at the start of the GST, was as low as 3% in Singapore and Japan. No separation exists at the level of international jurisdictions regarding the degree of food processing. Therefore, it would be beneficial to extend the benefit of lower or zero tax rates to all food products in India, independent of their level of processing.

#### Effect on the Consumer Products Industry

The FMCG industry would significantly change with the imposition of the Goods and Service Tax. Food and beverage make up 50% of the consumer goods sector for food manufacturing, while household and personal care make up 30%. The FMCG industry, commonly known as consumer packaged goods, is the main source of direct and indirect taxes in the economy. The company's choice of where to manufacture goods and how to distribute them is influenced by the various taxation systems. Their businesses locate their factories and storage facilities where they can receive tax breaks. To move the stock between the states from the warehouses, they must pay taxes. Because taxes have an impact on a company's costs, the FMCG industry will undoubtedly be impacted by GST.

#### Impact on Equities Investments and Brokers

The service tax has been incorporated into the GST, changing the rate from 15% to 18% for financial services. Given that the aggregate shift is only approximately 3 basis points, this might not seem like a big deal to long-term investors. The economics of short-term traders' fund blending in the equities markets will shift as a result of these 3 basis points. If it actually had an impact on market volumes and liquidity remains to be seen.

### Impact on the Cement Sector

The introduction of the GST is anticipated to have no effect on the cement sector, according to Angel Broking. Previously, VAT rates between 12.5 and 15.5 percent and an excise tax of 12.5% applied to cement. The GST will tax cement at a rate of 28%, which is almost the same as the current tax system.

### Services in Information Technology are affected

It has not yet been decided on the proposed GST rate for the IT sector. The product's combined GST rate, as discussed, is 27%. If software is transferred by electronic means, it would be considered a service under the proposed GST (intellectual property) and it should be recognised as a good if it is transferred via media or any other touchable property. By implementing a single point of consistent, streamlined taxation, price will be decreased.

### Infrastructure Sector Affected

The electricity, road, port, railways, and mining sectors make up the majority of the infrastructure sector in India. The indirect tax levy is unique to each of them and is therefore composite in nature. While being significant on a national level, this industry enjoys a variety of exceptions and concerns. The introduction of GST will result in the elimination of many taxes and an expansion of the tax base while maintaining exceptions and considerations for growth and national interest.

### Effect on Small-Scale Businesses

There are three categories for small businesses, and those that fall under the threshold are exempt from GST registration. A turnover-based tax or joining the GST system will be an option for those with turnovers between the threshold and composition turnovers. Those above the edge limit must be considered in the context of GST. The situation is a little more complicated in regards to the central GST, which is anticipated to increase compliance and broaden the tax base, contributing up to 2% to GDP. Manufacturers and traders will have to pay less tax as a result of the GST.

### Influence on Telecom

Reliance Jio's fierce competition is placing a lot of strain on the industry. Telecom services will now be taxed at 18% instead of the previous 15% under the GST system.

### Effect on Automobiles and Related Industries

Except for hybrid autos, which will be subject to a 28% GST, the GST rates for the auto sector are mostly anticipated to be neutral. There won't be any noticeable changes to the current tax system for other vehicle types. Companies that manufacture tractors will experience difficulties because their taxes would increase from the current 6% to 14%.

### GST Challenges in the Indian Market

The GST is a very good sort of tax, but there are some difficulties that must be overcome before it can be successfully implemented in India. The following are some considerations for GST that must be made.

Many people are still learning about the GST and how its rules will affect their businesses, and many are still figuring out where they need to register.

Many GST provisions are still unclear. It is still unclear how to classify products and services in certain situations. Uncertainty surrounds the anti-profiteering provisions and the

now-deferred e-way bill, which tracks shipments across states.

In order to create GST invoices and the necessary reports, many firms have yet to map their accounting software and IT systems to the new tax requirements.

It is difficult to find employees with the exact essential expertise, effective GST understanding, and training in their field. According to this, businesses must file numerous returns, usually at least 37 for assessments, however this number can rise significantly depending on the business style.

### Findings

The GST will lower various indirect taxes. There won't be any secret taxes, which promotes transparency.

One sort of tax, the GST, will eliminate economic distortions and aid in the creation of a single national market.

It is a significant step forward for the Make in India and Digital India initiatives.

### Suggestions

- In order to ensure successful implementation and outcomes, it is recommended that the government choose strategies and policies in this regard.
- To stop states from hiking tax rates, the GST Council should bring the four tyre levies under the net.
- A proper and effective network management system must be built for the digitization of the GST system.
- To help businesses and consumers understand how the GST works, special programmes may be put in place.

### Conclusion

Due to their significance as a source of revenue and their favourable effects on equity and efficiency, tax policies have a significant impact on the economy. A competent tax system should keep up with concerns of income distribution while simultaneously attempting to provide tax revenues to support government expenditures on public services and infrastructure development.

### References

1. Shinde Manisha. "A study of impact and challenges of gst on various constituents of indian economy" *ijrar*. 2019; 6(1), (E-ISSN 23481269, P-ISSN 2349-5138).
2. Goods and service tax (GST): a brief introduction. Ghosh, S. 2017; 8(12) 75-80.
3. GST-A Game Changer for the Indian Economy: An Overview
4. Chaurasia P, Singh S, Kumar Sen P. "Role of Goods and Service Tax in the growth of Indian economy", "*International journal of science technology and management*, 2016, 5(2).
5. Sehrawat M, Dhanda U. "GST in India: A key tax reform", "*International journal of research granthaalayah*", 2015, 3(12).
6. Pinki, SupriyaKamna, RichaVerma. "Good and Service Tax: Panacea For Indirect Tax System In India", "*Tactful Management Research Journal*", 2014, 2(10).
7. Kumar N: "Goods and service tax in IndiaA way forward", "*Global Journals of multidisciplinary studies*", 2014, 3(6).
8. Jaidi J, Noordin R, Kassim AWM. Individual Taxpayers' Perception, 2013.
9. Towards Self-Assessment System: A Case of Sabah, *Journal of the Asian Academy of Applied Business*, 2(1), 56-65.