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An Economic Analysis of Goods and Services Tax in India

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***Abstract*— *GST has been adopted by nearly 140 countries around the world. In this connection, the present paper is an attempt to find out an economic analysis of Goods and Services Tax in India. This paper found that some taxes of central and states taxes such as Central excise duty, Duties of excise, Additional duties of excise, Special Additional duties of custom, Services tax, State VAT central sales Tax and Purchase Tax, etc. would be subsumed in GST. This study also found some advantage such as Increase the Gross Domestic Product, Promotion of Exports, Reduction in the cost of production, Reduction in the transportation cost, Beneficial for the Low-income States, etc. and disadvantages such as Not inclusion of Some Commodities in the GST Rate, Multiple GST in different States, No decision on the GST Taxation Rate, Loss to some States, etc in adoption of GST in India. This paper also suggests that adoption of GST in India will be beneficial for long term and increase in GDP.*

Keywords*— *GST.VAT, Taxation, Goods, Production

I. INTRODUCTION

France was the first country in the world to introduce the Goods and Services Tax (GST) in 1954. Since then, Nearly 140 countries around the world have been adopted this taxation system. In India, central government annual Budget 2006-07 GST was first time announced and empowered a committee to give a task with drawing up for GST by April 1, 2010. After that, in 2008 this committee submitted a report to the government for a amendment bill for GST in the Lok Sabha. Further, another amendment bill of 122nd was presented before the Lok Sabha in December 2014. But, in the same year this was not became a table item in the Lok Sabha due to the opposition by the opposition party. On 6 may 2015, the bill was passed by the Lok Sabha followed by the Raja Sabha on 3 august 2016. Now, it is expected to implement this taxation system by 2017-18 budgetary seasons. The GST taxation system will be the biggest taxation reform from independence in India. This will change the indirect taxation in Indian economy and it will further strength the country economy.

Industry chamber of India welcome the passages of the GST and issued a statement that the tax reform will not only help Indian industry and trade in growing more rational manner but also attract foreign investment. According to Stock Exchange Board of India, GST will have simplify and rationalize the taxes in India. A shift from the unorganized to the organize sectors will change the efficiency in this system because of the significant presence of the unorganized sector in Indian economy. A report by National Commission for Enterprise in Unorganized Sector (NCEUS) in 2005 has also estimated that out of 485 million persons employed in India, 86 percent which constitutes around 395 million worked in the unorganized sector and they were generating 50.6 percent of the country's GDP. In this connection, PHDCII also expect about a big change in the economic system to be more competitive as it. Further, the big-bang tax reform will improve the conditions of the Indian industry as a whole. This study is based on the secondary data which is collected from various institutes of national importance.

II. REVIEW OF LITERATURE

Gupta *et al.* (2004) carried out of a study and stated that we must reform in the Indian taxation system as well as improve the income tax and administration system. If the taxpayers voluntary income higher the tax, then it will pay more in tax.

Jyarman *et al.* (2005) stressed that the Indian taxation system must be changed according to the time. The first and the foremost reason of Indian's taxation system is corruption. That's why, the taxation department like custom and Excise departments not generating the required revenue level in the country. Further, the taxation department must check the corruption and the centre government must monitor and enforce the taxation departments.

Fatt (2010) studied the rate of the GST for different goods and commodities. In this paper, it was suggested that the rates of the GST would be 10, 5 and 20 percent for the taxable goods, fruits, and the building material respectively.

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Cnossen (2013) Carried out a study and suggested that GST will be implemented in India and almost all current indirect taxes would be subsumed. The problem of tax collection would be abolished with application of the GST in India and further it would strength the economic growth.

Agog Mawisli (2014) suggested that GST is not a beneficial taxation system for India. This country has low income but GST does not support the poor countries. So, if we apply this taxation system in India, then this will come down the Indian economy by10 percent.

Nitin kumar (2014) studied the goods and services tax implementation in India. This study suggests that GST will help in removing the barriers of the Indian's taxation system and encourage the tax structure reform.

Pinki.*at.al*. (2014) studied the GST tax system for the Indian economic reform. This study pointed out that the NDA government must be applied the GST in India and it will be beneficial for the centre and States governments as well as the consumers sector and the IT sector in India.

III. OBJECTIVES OF THE PAPER

This study has some specific objectives which are given as follows:

1 To know the central and state governments tax to be subsumed

2 To know the advantage and disadvantage of GST.

IV. TAXES

4.1 Central Government Taxes

According to the constitution of India, Central Government may impose following taxes on the public, companies and corporate entities and they are given below.

- Central Excise Duty [including additionalExcise duties, excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955]
- Service tax
- Additional Customs Duty (CVD)
- Special Additional Duty of Customs (SAD)
- Central Sales Tax (levied by the Centre and Collected by the States)
- Central surcharges and ceases (relating to Supply of goods and services)

4.2 State Government Taxes

According to the constitution of India, State governments may impose following taxes on the public, companies and corporate entities.

- Value Added Tax
- Octroi and Entry Tax
- Purchase Tax
- Luxury Tax
- Taxes on lottery, betting & gambling
- State ceases and surcharges
- Entertainment tax (other than the tax levied)

4.3 Central and State Governments Taxes to be subsumed

According to the reports, the following taxes may be subsumed after the implementation of the GST in India.

- Central excise duty
- Duties of excise (medicinal and toilet preparation)
- Additional duties of excise (textiles and textile products)
- Special Additional duties of custom (SAD)
- Services tax
- Ceases and surcharges in so far as they relate to supply of goods or services.
- State VAT central sales Tax
- Purchase Tax
- Luxury Tax
- Entry tax (All forms)
- Entertainment tax (not levied by the local bodies)
- Taxes on advertisements
- Taxes on lotteries betting and gambling
- State ceases and surcharges.

V. ADVANTAGES OF GST

Advantages of GST for adoption in India are given below:

- **Increase the Gross Domestic Product**

According to a report submitted by The Finance Commission to the Government of India, it is expected that implementation of a comprehensive GST across goods and services will increase India's GDP within a range of 0.9 to 1.7 percent. So we can say that adoption of GST will be positive impact on increase in GDP.

- **Promotion of Exports:**

It is also expected that the differential multiple tax regime will replace in one taxation system and it will promote the imports of goods and services. Further it will also helpful in the increase of production of goods and services.

- **Reduction in the Cost of Production:**

Many studies about GST suggest that implementation of the GST in India will reduce the cost of production up to 2% as well as the profit will also increase by 20 percent. Further, because of increase in the profit, the foreign investment will also attract in India.

- **Reduction in the Transportation Cost**

Because of the transportation distance and differentiation in the tax rates in different states in India, the transportation cost will reduce up to 20-30 percent and the inventory cost will also fall from one state borders to another. It is a proposal in GST that trucks may travel up to 280 km a day without any tax. It is 800 km in the USA.

- **Beneficial for the Low Income States**

The low income states like Bihar, Jharkhand, Orissa and Uttar Pradesh will be benefited after implementation of GST in India The current 2% inter-state levy duty will remain within these state.

- **Low Cost of Manufactured Goods**

According to a study of HSBC, which is estimated on 80 basis point, will increase in GDP growth over 3-5 years from 0.9 to 1.7 percent. This will further reduce the manufactured goods.

- **Increase in the Investment of Capital Goods**

Because of the implementation of GST, investment will increase in the capital goods which will further drop the cost of capital goods &services up to 12-14%. Another study also suggest that a increase in investment up to 6 percent in capital goods will rise 2% overall growth in India.

- **Beneficial for Make in India program**

After implementation of GST, Manufacturing sector will be more competitive due to subsumed of taxes, inter-state Tax, high logistics costs and fragmented market. All these things will be beneficial for Make in India program.

VI. DISADVANTAGES OF GST

Disadvantages of GST for adoption in India are given below:

- **Not inclusion of Some Commodities in the GST Rate**

Some goods such as Alcoholic Liquor, crude oil, petrol and diesel, natural gas will not be included in the GST Rate in India. So, these goods will be taxed on separate taxation system and there will be not a single taxation system.

- **Multiple GST in different States**

This is also a disadvantage that different GST will be applied in different States. So this will like an old taxation structure and not be a single tax.

- **Not decision on the GST Taxation Rate**

The central Government wants to keep the GST tax rate up to 22 percent but the others states want to keep the taxation rate very high from 27 to 28 percent. So both governments have not decided for a common GST tax structure.

- **Loss to some States**

After implementation of GST in India, some states will be loosed in revenue collection. Bombay municipal corporation earns Rs 7000 crore as a source of the Octroi every year. This will be reduced after adoption of GST in the country.

Further, Government of Andhra Pradesh will also loosed Rs 4, 7000 crore as a source of revenue every year,

- **Increases in Inflation**

The Inflation will also be increased because of adoption of the GST in India. It is expected by the experts that the inflation rate will be increased by 0.4-0.7 percent after the implementation of GST in India.

- **Loss of Revenue to the Central Government**

The central Government will bear the burden of all the states in the case of loss of revenue after the adoption of the GST. According to the state Finance Minister, The central Government will give the compensation of revenue to every states where there a loss of it. This will reduce the revenue collection for the central government.

VII. CONCLUSION

This paper concludes that some taxes of central and states government such as Central excise duty, Duties of excise (medicinal and toilet preparation), Additional duties of excise (textiles and textile products), Special Additional duties of custom (SAD), Services tax, Ceases and surcharges in so far as they relate to supply of goods or services, State VAT central sales Tax, Purchase Tax, Luxury Tax, Entry tax (All forms), Entertainment tax (not levied by the local bodies), Taxes on advertisements, Taxes on lotteries betting and gambling, State ceases and surcharges may be subsumed after the implementation of the GST in India. Further, the present study also found that adoption of GST will increase the Gross Domestic Product, the investment of capital goods and Exports of the country.

It will reduce the cost of production, manufactured goods and transportation. But it will be beneficial for the Low income States and Make in India program.

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