

# IMPACT AND CHALLENGES OF IMPLEMENTATION OF GST IN INDIAN ECONOMY

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**ABSTRACT:** Goods and service tax (GST) is a comprehensive tax levy on manufacture, sale and composition of goods and service at a national level under which no distinction is made between goods and service for levying of tax. It will mostly substitute all indirect taxes levied on goods and service tax by the central and state government in India. GST is a greatest tax reform in India since independence. More than 160 countries in the world have implemented GST so far. France was the first country to introduce GST in 1954. Most of the countries have a unified GST system. Brazil and Canada follow a dual system which is followed in India. This paper presents an overview of GST, advantages, features, impact and challenges of GST on various industries.

**KEYWORDS:** Goods and service tax, Impact of GST, Indian economy.

## 1. INTRODUCTION

GST stands for Goods and Services Tax. GST will be a single destination based consumption tax that will replace existing taxes, including CENVAT, Octroi, Sales Tax, and Excise Duty, etc. Unlike the old tax structure, where the state of origin received tax revenue, in the new GST model the state in which goods and services are consumed is the state that will receive the revenue. France was the first country to introduce GST in 1954. Most of the countries have a unified GST system. Brazil and Canada follow a dual system which is followed in India. GST came into effect on 1<sup>st</sup> July 2017. Indirect tax is a type of tax where the incidence and impact of taxation does not fall on the same entity. The idea of GST in India was proposed by Honorable ex-prime minister Atal Bihari Bajpayeeji in 1999 and a committee was set up under the leadership of Ashim Das Gupta then the finance minister of west Bengal to design a GST model. It was supposed to be implemented from 1<sup>st</sup> April 2010 under the flagship of P.Chidambaram then the finance minister of UPA Government but due to political issues and conflicting interests of various stakeholders it did not come into force. In May 2016 the constitutional amendment bill for GST was passed by Lok Sabha and deadline of 1<sup>st</sup> April 2017 to implement GST was set by Arun Jaitley the finance minister of India. It was finally come into force midnight on 1<sup>st</sup> July 2017 by the president of India Pranab Mukharjee and Prime Minister Narendra Modi.

All taxes will be paid online and there will be no manual filing of returns. Post generation of challan online, one can pay GST by one of the following modes – Axis Debit/credit card, Axis Internet Banking or cash/cheque at any Axis Bank branch.

GST regulations are applicable if entity's annual turnover is Rs. 20 lakh or above. In case of North Eastern states (Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura) and hilly regions i.e. Himachal Pradesh, Uttarakhand, Jammu & Kashmir and Sikkim, the threshold limit is Rs. 10 lakhs. The GST rates will bring in tax parity across the country and will lead to a regime of 'one nation, one tax'. The GST has been primarily categorized into four tax slab rates- 5%, 12%, 18% and 28%. Gold, rough diamond has been taxed under a separate slab of 3 per cent.

## 2. OBJECTIVES OF THE STUDY

The study has following objectives

- I. To grasp the concept of GST
- II. To study the features and benefits of GST.
- III. To study the impact and challenges of GST on Indian economy.

## 3. RESEARCH METHODOLOGY

An Explanatory research is studied based on secondary data collected from various journals, articles, government reports, books, newspapers which is mainly focused on different aspects of goods and service tax.

## 4. ANALYSIS AND FINDINGS

### 4.1 CONCEPT OF GST

GST is meant to simplify the indirect tax regime of India by replacing a host of taxes by a single unified tax. GST is a comprehensive, multi-stage, destination based tax system that is levied on every value addition. GST will bring a new dimension to the Indian economy by making a common market and reducing the cascading effect of tax on the cost of goods and services. It will affect the entire indirect tax structure system. The main purpose of GST is to bring about the single uniform system of taxation in the manufacture, sale and the consumption of goods and services in India. The GST is said to reduce the level of tax evasion and the corruption.

The GST model consists of three components which are as under

- I. CENTRAL GOODS AND SERVICE TAX -To be levied at the Centre.
- II. STATE GOODS AND SERVICE TAX- To be levied at the State
- III. DUAL GOODS AND SERVICE TAX- To be levied at the centre concurrently.

#### 4.2 SALIENT FEATURES OF GST

1. All transactions on goods and services will be covered up except exempted goods and services.
2. There are two GST Model for levying tax viz Central GST and State GST.
3. Meaning of taxable persons, taxable events, chargeability, measure to levy tax etc would be same in CGST and SGST.
4. Administration of CGST is controlled by central government and SGST controlled by state government.
5. All the transaction falls under GST operated in online mode.
6. Input credit can be claimed from respective department where GST paid.
7. The GST slabs have been set at 0%,5%, 12%,18% and 28% for different goods and services.
8. The union government will compensate the states for a period of 5 years or more on recommendation of GST council for the loss of revenue arising out GST implementation.

#### 4.3 BENEFITS OF GST TO THE INDIAN ECONOMY

According to various Experts following are the benefits of GST Model in India

1. Removal of bundled indirect taxes such as VAT, CST, Service tax, excise, CAD and SAD.
2. Less tax compliance and a simplified tax policy compared to earlier tax structure.
3. Removal of cascading effect of taxes.
4. Reduction of manufacturing costs due to lower burden of taxes on manufacturing sector. Hence prices of consumer goods will likely to come down in future period.
5. Public will have to shed less money to buy the products that were costly earlier.
6. Increased demand and consumption of goods. Hence it will increase the supply of goods.
7. Control on black money circulation which adversely affect on the economy.
8. Introduced one country one tax structure system.
9. Employment generation for youths as GST trained Experts.

#### 4.4. IMPACT OF GST ON INDIAN ECONOMY

Following are impacts of GST after its implementation to the Indian economy

Reduces the burden of tax on producers and fosters growth through more production.

- I. A single GST tax system will eliminate the different tax barriers.
- II. There will be more transparency in the system as the customers will know exactly how much taxes they are being charged and on what base.
- III. GST will extend the revenue of government.
- IV. GST will remove the custom duties applicable on exports.

#### 4.5. CHALLENGES OF GST ON INDIAN ECONOMY

There are certain challenges and problems to be faced by the Indian economy for implementing of GST

- I. There is no such clear picture about the GST both to the government and to the general public.
- II. There is no co-operation between the central government and state government in implementing GST.
- IV. The state government initially refuses to accept GST.
- V. GST faced lack of political support.
- VI. GST operates completely online basis where all the businessmen are not so technologically expert to operate GST transactions in a smooth manner.
- VII. Our country has multicultural characteristics exist where it will face different types of challenges in near future. Our GST tax structures based on Canadian tax structure system which have one cultured characteristics exist.
- VIII. GST tax rate varies from 0%,5%,12%,18% and 28% which is limited for the whole taxation system earlier separate tax rate existed for different goods and services. Previously there were 32 taxes which include service ax, excise duty, sale tax and 29 State VAT

#### 5. CONCLUSION

GST will bring a new dimension to the Indian economy by making a common market and reducing the cascading effect of tax on the cost of goods and services. It will affect the entire indirect tax structure system. GST is a greatest tax reform in India since independence. The GST is an unconcerned attempt by the government to justify the indirect tax structure of the country. The government must study all the aspects of positive as well as negative aspects of GST for the smooth economy. No doubt GST can increase the government revenue but government should also give attention to the public and others. The only possible remedy for this disruption is to make the transition to GST simpler.

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