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GOODS AND SERVICES TAX: ITS MECHANISM AND IMPACT ON INDIAN ECONOMY

Dr. Satyabrata Mishra* Dr. Pradeepta Kumar Mishra**

**Associate Professor & HOD, PG Department of Economics, M.P.C. Autonomous College, Odisha.*
***Lecturer in Economics, Dr. Shyama Prasad College, Odisha.*

Introduction

The reform process on Indirect Tax was announced on 1st July and named as Goods and Services Tax (GST). It is applicable throughout India by replacing multiple cascading taxes levied by the Central and State Governments. It was introduced as the Constitution Act 2017 of 122nd Amendment Bill. The GST approved the following rates, 0%, 5%, 12%, 18% and 28% for different goods and services. The precious and semi-precious rough stones will be levied a separate rate of 0.25% tax and 3% to gold. The present GST system removed the former taxes and based on, Central Excise Duty, Service Tax, Additional Customs Duty, Surcharges, State-level Value Added Tax and Octroi. Other levies which were applicable on Inter-State transportation of goods have also been removed and included in GST regime**.**

GST is levied in all transactions such as sale, transfer, barter, lease, or import of goods and services. There is a dual model GST system where taxation is administered by both the Union and State Governments. Transaction within a single mode includes Central GST (CGST) imposes by Central Government. Transaction made within a single State are levied with State GST (SGST) by the State Governments. For Inter-State transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government.

Objectives

The present paper seeks to analyze mechanism of GST and its impact on Indian economy.

Background of GST

India's reform in indirect tax started at the time of the then Prime Minister ViswanathPratap Singh period in 1986. He introduced Modified Value Added Tax (MODVAT). AtalBihariBajpayee Government and his economic advisory committee mooted to introduce a single common 'Goods and Services Tax (GST). But the Government was defeated in the election. In 2006 the then Finance Minister UPA Government P. Chidamberam continued the work and proposed a GST rollout by 1st April 2010. It was stopped due to miscellaneous problems at that time. In 2014 when the NDA Government headed by Prime Minister NarendraModi came to power the GST Bill was introduced In May 2016, The LokeSabha passed the Constitution Bill regarding GST. Finally in August 2016 the amendment Bill was passed and President PranabMukharjee gave his consent. The Goods and Services Tax (GST) launched at midnight on 30th June 2017.

Opposition's View on GST

Members of Congress, Trinimool Congress, Communist Party of India and DMK boycotted and put their voice against GST. They have the opinion that there is no difference between the present existing taxation system and GST. They claimed that the Government was trying to merely rename the taxation system as GST. They also argued that the tax rate imposed more in common daily goods and reducing rates on luxury items which will affect adversely to middle, lower middle and poorer classes. After the acceptance of GST there is a protest against GST by different community by realizing overall tax burden and hike in price of commodities. GST is strongly opposed and protested by business groups in the country.

Need for the Constitutional Amendment

In those Countries where GST has been introduced barring rare exceptions, GST is unitary in character and levied either by Central Govt. or by State Govt. The introduction of GST in India required amendment in the constitution as prior to constitutional amendment the fiscal powers between Centre and State were clearly demarcated as per the entries in the Union list and State list. The Centre had the powers to levy tax on the manufacture of goods except alcoholic liquor for human consumption, opium, narcotics etc. while the States had the power to levy tax on the sale of goods. In case of Inter-State sales , the Centre had the power to levy tax (Central Sales Tax) but the tax was collected and retained entirely by the States Regarding services only the Centre was empowered to levy the Service Tax. As both the levels of Govt. have distinct responsibilities to perform according to the division of powers prescribed in the Constitution, both the States and Centre require resources to be raised. Hence amendment was desideratum in the Constitution to concurrently empower the Centre and state to levy and collect GST. The dual GST introduced in India conforms to constitution requirements of fiscal federalism.

Constitution 101st Amendment Act 2016

The constitutional amendment empowers the Centre and state to levy and collect the GST. GST has been defined as a tax on supply of goods or services or both except supply of alcoholic liquor for human consumption. Thus alcohol for human

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consumption has been kept out of GST by definition of GST in the constitution on the other hand five petroleum products Viz. Petroleum crude motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel have been temporarily kept out and GST council can decide the date from which they shall be included in GST on Interstate supply of goods and services on Integrated GST(IGST) would be levied and collected by the Centre. It will ensure that GST is destination based consumption tax.

Compensation to the States

As GST is a destination based tax, there was apprehension among the manufacturing States that implementation of GST may result in loss of revenue for them. Therefore the constitution 101st Amendment Act 2016 provides for compensation to the States for loss of revenue arising on account of implementation of GST for a period of five years. Based on the recommendation of GST council GST (Compensation to States (Act 2017 has been enacted. The compensation Act has fixed the revenues of the FY 2015-16 as the base year revenue and further a nominal annual growth rate of 14% has been provided. The Act provides for levying of a cess which shall be used for compensation to the States in case there is loss of revenue. This cess shall be levied on luxury items.

Mechanism of GST

Goods and Services Tax is comprehensive, multistage, destination based tax that is levied on every value addition. Multistage refers to purchase of raw materials, production or manufacture, warehousing of materials , sales of products to the retailer and retailer selling to customer GST will be levied on each of these stages which makes it multistage, suppose a manufacturer intends to make a shirt for which he has to purchase yarn which turned into a shirt after manufacture. The value of yarn increased when it gets woven into a shirt. The manufacturer sells it to the warehousing agent who attaches labels and tags to each shirt. It leads to addition of value after which the warehouse sells it to the retailer who packages each shirt separately and invests in marketing of the shirt which increases its value. GST will be levied on these value additions the monetary worth added at each stage to achieve the final sale to the end customer

GST is destination based. It is levied on all transactions happening during the entire manufacturing chain. GST is levied at every point of sale. Suppose the entire manufacture process is in Rajasthan and the final point of sale is in Karnataka. Now Rajasthan will get revenue in the manufacturing and warehousing stages but lose out on the revenue when the product moves out Rajasthan and reaches the customer in Karnataka.
Thus Karnataka will earn that revenue on the final sale because it is a destination based tax and revenue will be collected at the final point of sale/destination which is Karnataka.

GST council has devised comprehensive method of implementing this new tax regime which is divided into three categories

- Central GST (CGST) where the revenue will be collected by the Central Govt.
- State GST (SGST) where the revenue will be collected by the State Govt. for Intrastate sales.
- Interstate GST (IGST) where the revenue will be collected by the central Govt. for Interstate sales.

Suppose a dealer in Maharastra sold goods to a consumer in Maharastra worth Rs 10000 GST rate is 18% comprising CSGT rate of 9% and SGST rate of 9% In such case the dealer collects Rs. 1800 out of which Rs.900 will accrue to Central Govt. and Rs.900 accrue to Maharastra Govt. Suppose dealer in Maharastra sells goods to a dealer in Gujarat worth Rs.10000 GST rate is 18% comprising of CGST rate of 9% and SGST rate of 9% In such case the dealer has to charge Rs 1800 as IGST which will accrue to Centre. There is no longer be any need to pay CGST and SGST.

The basis of GST is the seamless flow of input Tax credit (ITC) along the entire value addition chain. At every step of the manufacturing process businessmen will have the option to claim the tax already paid in the previous transaction.

ITC

It is the credit an individual receives for the tax paid on the inputs used in manufacturing the product. If there is 10% tax that the individual must submit to the Govt. which he can Subtract the amount he has paid in taxes at the time of purchase and submit the balance amount to the Govt.

Suppose a shirt manufacture pays Rs.100 to buy raw materials. If the tax rate is set at 10% and there is no profit or loss involved then he was to pay Rs.10 as tax. Now the final cost of the shirt becomes Rs. (100+10) = Rs110
At the next stage the wholesaler buys the shirt from the manufacturer at Rs.110 and adds labels to it. Adding labels means adding value. Therefore the cost increases by Rs.40. He has to pay 10% tax and the final cost becomes Rs (110+40)=Rs.150+10% tax =Rs.165.

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Now the retailer pays Rs.165 to buy the shirt from the wholesalers because the tax liability has passed on to him. He has to package the shirt and adds value again. The value added is Rs. 30. Now the cost of the shirt becomes Rs.214.50

Cost=Rs.165+ value added=Rs.30+10% tax=Rs.195+19.50=Rs.214.50

The customer pays Rs.214.50 for a shirt the cost price of which was basically only Rs.170 (Rs.110+Rs.40+Rs.30). Along the way the tax liability was passed on at every stage of transaction and the final liability rest with the customer. This is referred to cascading effect of taxes where a tax is paid is paid on tax and value of the item keeps on increasing every time.

In case of GST there is a way to claim credit for tax paid in acquiring input. The individual who has paid a tax already can claim credit for this tax when he submits his taxes.

When the whole seller buys from the manufacturer he pays 10% tax on his cost price because the liability has been passed on to him. Then he adds value of Rs.40 on his cost price of Rs. 100 and cost hikes to Rs.140. Now he has to pay 10% of this price to the Govt. as tax. But he has already paid one tax to the manufacturer. Now instead of paying Rs.14 (10% of Rs.140) to the Govt. as tax, he subtract the amount he has paid already. Thus he deducts Rs. 10 paid on his purchase from his new liability of Rs.14 and pays only Rs. 4 to the Govt. Thus Rs. 10 becomes his input credit.

When he pays Rs. 4 to the Govt., he can pass on its liability to the retailer. Thus the retailer pays Rs. (140+14) =Rs. 154 to buy the shirt. At the next stage the retailer adds value of Rs. 30 to his cost price and pays 10% tax on it to the Govt. when he adds value his price becomes Rs. 170. Now if he has to pays 10% tax on it , he has already paid input credit because he has paid Rs. 14 to the wholesaler as tax . now he reduces Rs. 14 from his tax liability of (Rs.10% of 170=Rs. 17) has to pay only Rs. 3 to the Govt. Now he can sell the shirt for Rs. 140+30+17=Rs. 187 to the customer.

Table 1

Action	Cost (Rs.)	10% Tax (Rs.)	Actual liability (Rs.)	Total (Rs.)
Buys Raw Material	100	10	10	110
Manufacturing @ Rs.40	140	14	4	154
Adds Value @ Rs.30	170	17	3	187
Total	170		17	187

In the end every time an individual was able to claim input tax credit , the sale price for him reduced and the cost price for the person purchasing his product reduced because of lower tax liability. The final value of the shirt is reduced from Rs. 214.50 to Rs.187, Thus reducing the tax burden on the final customer.

Thus GST is having two pronged benefit i.e. reducing the cascading effect of taxes and allowing input tax credit which reduces tax burden and price hike.

Declaration of GST Rate Slabs

Now, imposed GST rate at different on different items and a slab of 0 %, 5 %, 12 %,18 % and @8 % imposed to various goods and services, where 18% to soaps, 28 % in washing detergents, 18 % GST for tickets that cost less than Rs.100 and 28 % for above Rs. 100.

Table 2: GST rate slabs of different goods and services in India

S. No	% of Tax	Goods	Services
1	2	3	4
1	0	Juice,fresh meat, fish chicken, eggs, milk, butter milk, curd,natural honey, fresh fruits and vegetable, flour, besan , bread, prasad, salt, bindi, sindoor, stamps, judicial papers, printed books, news papers,bangles, handloom, bones and horn cores, bone grist, bone meal etc: hoof meal,horn meal, cereal grains hulled, palmyrajaggery, salt-all types, kajal children’s pictrue drawing or colouring books, human hair.	Hotels and lodges with tariff below Rs.1,000 Grandfathering service has been exempted under GST.

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2	5	Fish fillet, apparel below Rs. 1000, packaged food items, footwear below Rs. 500, cream, skimmed kilk powder, branded paneer, frozen vegetables, coffee, tea, spices, pizza bread, rusk, saabudana, kerosene, coal.medicine, stent, lifeboatsm cashew nut in shell, raisin, ice and snow, bio gas, insulin, agarbati, kites, postage or revenue stamps, stamp-post marks, first day covers	Transport services (Railway, Air transport), small restaurants, textile job work
3	12	Apparel above Rs. 1000, frozen meat products, butter, cheese, ghee, dry fruits in packaged form, animal fat, sausage, fruit juices, bhutia, namkeen, Aurvedic medicines, tooth powder, agarbati, colouring books, picture books, umbrella, sewing machine, cellphones, ketchup and sauces, all diagnositic kits and reagents, exercise books and note books, spoons, forks, ladles, skimmers, cake servers, fish knives, tongs,spectacles, corrective, playing cards, chess board, carom board and other board games, like ludo.	State runs lotteries, Non-AC hotels, business class air ticket, fertilisers, work contracts.
4	18	Foot wear costing more than Rs.500,trademarks, goodwill, software, bidipatta, biscuits, flavored refined sugar, pasta, conflates, pastries and cakes, preserved vegetables, jams, sauces, soups, ice cream, instant food mixes, mineral water, tissues, envelopes samons, note books, steel products, printed circuits, camera, speakers and monitors, kajal pencil sticks, headgear and parts of thereof , aluminium foil, weighing machinery, printers electrical transformer, CCTV, optical fiber, bamboo furniture, swimming pool, bamboo furniture, swimming pools and padding pools, curry paste, mayonnaise and salad dressings, mixed condiments and mixed seasonings and tractor parts.	AC hotels that serve liquor, telecom, services, IT services, branded garments and financial services will attract 18 % tax under GST, room tariffs between Rs. 2500 and 7500 restaurants inside five-star hotels.
5	28	Bidis, chewing gum, molasses, chocolate not containing cocoa, waffles and wefers coated with choclate, pan masala, aerated water, paint, deodorants, shaving creams, agter shave, hair shampoo, dye, sunscreen, wallpaper, ceramic tiles, water heaer, dishwasher weighing machine, washing machinel ATM, vending machines, vacuum cleaner, shavers, hair clippers, automobiles motomycles, aircraft for personal use.	Private run lotteries authorised by the states, hotels with room tariffs above Rs.7500, five star hotels, race club betting, cinema.

Source- GST: A quick guide to India, GST rates in 2017,Economic Times, 2-18, pp.

The above Table-2 indicates that some commodities like, juice, fresh meat, milk, fresh fruit and vegetables are exempted from GST rate slabs and services like, hotels and lodges below Rs. 1000 tariff are also exempted from GST. To curtail the income of the higher earning groups the commonly used particles like jams, sauces, soups, ice cream, instant food mixes optical fibre, CCTV etc comes under 18 % of GST. Like this note books and pencils, telecom, IT services comes under 18 % of GST. Most of the intoxicants are levied 28 % GST. Services on Private run lotteries authorised by State Governments, five star hotels and club betting cinema comes under 28 % GST.

Positivity of Post-GST in the Country

Revenue collections from the Goods and Services Tax (GST) exceeded the Government's target in its first month, with as much as Rs.92,283crores. Exchequer from 64.4 % of taxpayer are eligible to pay taxes have already filed their returns in july. The total number of taxpayers required to file returns for July is 59.57 lakh out of which 38.38 lakh have filed returns.

The centre targeted Rs. 48,000 crore from CGST collection and the overall target for State Revenues(CGST) fixedat Rs. 43000 crore, The aggregate revenue target fixed at Rs.91000 crores (CGST,SGST and IGST). The collection is likely to exceed the target.

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Table 3: Collection of GST (in Crores)

S. No	Different Heads	Receipts (Rs. Cr.)
1	2	3
1	SGST	14,894
2	IGST	22,722
3	Cess Receipts	47,469
4	Import cess	7,198
Total		92,283

Source: The Hindu, 1st September, 2017

Total revenue received from GST in 2017 July is Rs. 92,283 crore with Central GST (CGST) ofRs.14,894crore, State GST receipts of Rs.22,722 and Integrated GST (IGST) receipt is Rs.47,469 crore, Cess receipts, including Cess from imports to Rs.7,198 crore (Table-3). Finance Minister has declared that the States those have lost their revenue due to the implementation of GST will be compensated from the Cess collection. Thus out of Rs.92,283 cr. the import Cess of Rs.7,198 will be deducted.

Impact of Goods and Services Tax(GST) on GDP

The Government denied any impact of demonitisation rather admitted that the universal application of GST in the country could have had an impact where businessmen have pulled down their inventory in anticipation of GST. As companies adopt GST their inventory position will become normal (T.C.A. Anant, Chief Statistician, 2017). The sector that contributed the most slowing economic growth was manufacturing which reduced to 1.2 % in mining and quarrying registered a negative growth of 6.7 % and construction which grew 2 %.

The Gross Value Added (GVA) in April-June quarter is 5.6 % which is considerably than in the same period (7.6 %). Economists use GAV as GDP minus Taxes (GAV=GDP - Taxes) which is a most realistic variable to compute the value of goods and services produced in the country. The important matrix- Gross Fixed Capital Formation (GFCF) reveals corporate investment exhibited in a lower point. The index fell to 29.8 % of GDP from 31 % in the same quarter last year. It is reveals that companies did not make effort because of hopping less demand.

Table 4: Slowdown of GDP

S. No	Period	Gross domestic products (%)
1	2	3
1	Growth in last quarter of June	7.9
2	In the preceding quarter	6.1
3	In June quarter 2017-2018	5.7

Source- : The New Indian Express, 1st August 2017

The Table-4reveals that GDP growth in the quarter of 2017-18 was 7.9 % which decelerated to 6.1 % in the preceding quarter of same year. But the estimation showed that in the June quarter 2017-18 the GDP growth again declined to 5.7 %.

Slowed down Growth in Eight Core Sectors

The eight core infrastructure sectors which are vital in the growth of the country are coal, crude oil, natural gas, refinery products fertilizers, steel, cement and electricity. Official data regarding eight core sectors exhibited that the growth rate decelerated down to 2.4 % in July due to contraction in output of crude oil, refinery products, fertilizer and cement. These sector registered growth of 8.1 % last year.

The Index of industrial production (IIP) of eight core sectors account for 41 percent to the total factory output which recorded a growth rate of 0.8 in June -2017. The production of crude oil declined to 0.2 %, fertilizer 0.3 %,and cement 2 %,coal output declined to 0.7 % against 4.1 % in July 2016. National output increase by 6.6 %. Steel production and power generation increased to 9.2 % and 5.4 % respectively. Only steel output relatively increased 9.2 % in July 2017 against 5.8% in July 2016.

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Table 5: Impact of GST on various Sectors (%)

S. No	Industries categories	June 2016-17 quarter	June 2017-18 quarter
1	2	3	4
1	Financial insurance, real estate,	9.4	6.4
2	Electricity, gas, water supply and other	10.3	7
3	Manufacturing dipped	10.7	1.2
4	Agriculture, forestry and fishing	2.5	2.3
5	Construction sector	3.1	2

Source: The New Indian Express, 1st September 2017

The Financial insurance, real estate and professional services has a growth of 9.4 % in the 2016-2017 June quarter which declined to 6.4 % in 2017-2018. In case of electricity, gas, water supply and other utility services growth reduced from 10.3 % to 7 %. Manufacturing sector dipped from 10.7 % to 1.2 % and in construction sector, the growth also dipped from 3.1 % to 2% in 2017-18 June Quarter against preceding year.

Advantages of GST

Advantages accruing from GST are enlisted below

- Check posts across the country were abolished for free and fast movement of goods.
- It will inject the revenue of the State Governments
- The GST levied on petrol and petroleum products may curtail the income of the higher groups and enhance the revenue of the Government.
- The Central Government will compensate losses to be incurred from GST by the State Government for a period of five years.
- The unique slogan in GST is to make India one nation, one market and one tax.
- Cashless system will check corruption and black money circulation in the country

Goods and Services Tax Network (GSTN)

Goods and Service Tax Network is a non-profit organization website. All the concerned parties like the Stakeholders, Government and Taxpayers related to GST are connecting to a single portal and the Taxpayers can put their tax returns. A sum of Rs.10 crore will be invested and 24.5 % will be shared by both the Central and State Governments and rest 51 % will be invested by private banking firms for the smooth operation of GSTN.

Reduced Rankin GDP Growth in the World

India now lags behind China in global growth ranking. China grew at 6.9 % in the successive last two quarters has bounced back as the world's fastest growing major economy since January, Major strike has to be initiated to achieve 8 5 % growth of India. It is observed that slowed down of 2 % GDP causes a loss of 3 lakh crores of the country (The New Indian Express, 1stSept, 2017).

Conclusion

In the quarter ending June 2017 delivering a blow to the India's' GDP slowed down at 5.7 % where the Government faced severe criticism only for the application of demonetisation. Finance Minister admitted the fall of GDP growth of the country but the cause of slow down of GDP growth is not due to demonetisation but for the universal application of GST in the country. The revenue collection received for July 2017 is Rs.92,283 crore where the target was 91,000 crore. Except CGST,SGST and IGST, Cess receipt from imports came to Rs. 7,198 crore. The Finance Minister said that this Cess collection will be deducted from the total revenue collected from GST. If any State has not received adequate revenues then they will be compensated from Cess. He also admitted that late filings of tax may push the GST revenue further with fine of 100 per day (which is now exempted). About 13.8 Lakh firms have completed their work to come GST Network. The other point denoted that 18.83 lakh of new tax payers have been registered with the GSTN till the late August 2017 (The Hindu,3rd Sept.2017).

The Chief Economist Mr.AbhishekBarua has contended that the slowdown of GDP in the last quarter of June has intensified due to the combination of long term slow down and temporary shock of demonotisation and application of GST in the country. It is contemplated that the country is yet to recover from the cash squeeze system due to demonitisation and launching of the uniform tax regime known as GST.But after the implementation of demonitisation and GST Tax

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Department's Data Analytics detect large number of suspect transactions. As many as 14000 properties of worth Rs. 1 crore each are under I-T lens. The official evidence proves that Rs. 15,490 crore was the undisclosed income and survey resulted in seizure of Rs. 13,920 crore.

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