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GST in Indian Economy

Dr. Katam Prabhakara rao,
Lec. in Economics, Govt. Degree College, Veleswaram.

Dr. N.E.Sugandhi,
HOD of English, S.R.V.B.S.i.B.M.R.College, P eddapuram.

Abstract: The proposed GST structure is likely to succeed only if the country has a strong IT network. It is a well-known fact that India is still in the budding state as far as internet connectivity is concerned. Moreover, the proposed regime seems to ignore the emerging sector of e-commerce. E- Commerce does not leave signs of the transaction outside the internet and has anonymity associated with it. As a result, it becomes almost impossible to track the business transaction taking place through Internet which can be business to business, business to customer or customer to customer. The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST.

Key words: GST, business to customer, Modified Value Added Tax

Introduction

'Tax policies play an important role on the economy. The main source of revenue for government of India is from tax, Direct and indirect taxes are the two main source of tax revenue, When the impact and incidence falls on same person it is called direct tax, When the impact and incidence hills on different person that is when burden can be shifted to other person it is called indirect tax, The indirect tax system is currently mired in multi-layered taxes levied by the Centre and state governments at different stages of the supply chain such as excise duty, octroi, central sales tax and value-added tax (VAT), among others, First Indirect Tax Reform occurred in India when the Modified Value Added Tax (MODVAT) was introduced for selected commodities in 198$ to replace the Central Excise Duty. The other reforms arc the introduction of service tax in 1994, decision to introduce VAT in 1999, introduction of Constitution Amendment Bill on GST in 2011,

Goods and Services Tax (GST) is most ambitious and biggest tax reform plan which aims to stitch together a common market by dismantling, fiscal barriers between states. It is a single national uniform tax levied across India on all goods and services. In GST all the indirect taxes will he subsumed under a single regime. The GSI' taxation laws will put an end to multiple taxes which are levied on different products, stating from the source of manufacturing to reaching the end consumer.

Wall Street firm Goldman Sacks, in a note 'India: Q and A on GST- Growth Impact Could Be Muted', has put out estimates that show that the Modi Government's model for the Goods and Services Tax (GST) will not raise growth, will push up consumer prices inflation and may not result in increased tax revenue collections.

There appears to be certain loopholes in the proposed GST tax regime which may be detrimental in delivering the desired results. They are:

India has adopted dual (1ST instead of national GST. It has made the entire structure of LIST fairly complicated in India. The centre will have to coordinate with 29 states and 7 union territories to implement such tax regime. Such regime is likely to create economic as well as political issues. 1 he states are likely to lose the say in determining rates once LIST is implemented. The sharing of revenues between the states and the centre is still a matter of contention with no consensus arrived regarding revenue neutral rate.

Chief Economic Advisor Arvind Subramanian on 4 December 2015 suggested GST rates of 12% for concessional goods, 17-18% for standard goods and 40% for luxury goods which is much higher than the present maximum service tax rate of 14%. Such initiative is likely to push inflation. The proposed GST structure is likely to succeed only if the country has a strong IT network. It is a well-known fact that India is still in the budding state as far as internet connectivity is concerned. Moreover, the proposed regime seems to ignore the emerging sector of e-commerce. E- Commerce does not leave signs of the transaction outside the internet and has anonymity associated with it. As a result, it becomes almost impossible to track the business transaction taking place through Internet which can be business to business, business to customer or customer to customer. Again, there appears to be no clarity as to whether a product should be considered a service or a product under the concept of E-commerce. New techniques can be developed to track such transactions but until such technologies become readily accessible, generation of tax revenue from this sector would continue to be uncertain and much below the expectation. Again h-commerce has been insulated against taxation under custom duty moratorium on electronic transmissions by the WTO Bali Ministerial Conference held in 2014.

Communication is considered to be necessity and one cannot do without communication. In modern times, communication has assumed the dimension of telecommunication. The proposed GST regime appears to be unfavourable for telecommunication sector as well. "One of the major drawbacks of the GST regime could he the direct spike in the service tax rate from 14% to 20-22%" (GST: Impact on the Telecommunications Sector in India), The proposed (NT appears to be silent on whether telecommunication can be considered under the category of goods or services, The entire issue of telecommunication sector assumes a serious proportion when India's rural tele-density is not even 50%.

The proposed GSI regime intends to keel) petroleum products, electricity4 real estate and liquor for human consumption, out of the purview of GST. It is a well-known fact that petroleum products havc been a major contributor to inflation in

India. Inflation in India depends on how the government intends to include petroleum products under GST in future.

Electricity is essential for the growth and development of India, it electricity is included tinder standard or luxury goods in future then it would badly affect the development of India. It is said that (1ST would impact negatively on the real estate market, It would add up to 8% to the cost of new homes and reduce demand by about 12%. The proposed GST regime "would he capable of being levied on sale of newspapers and advertisements therein" This would give the governments the access to substantial incremental revenues since this industry has historically been tax free in its entirety" [6]. It sounds ridiculous but the provision of (1ST is likely to make the supervision of operations by its Board/senior managers across the company's offices in different parts of the country a taxable service by allowing each state to raise a GST demand on the company. Again there appears to be lack of consensus over fixing the revenue rate as well as threshold limit. One thing is for sure, services in India are going to be steeply costly if GST is fixed above the present service tax rate of 14% which in turn will spiral up inflation in India. "Asian countries which implemented GST all had witnessed retail inflation in the year of implementation.

Conclusion

The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. No doubt. GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime.

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