

# GST and its Impact on Selected Economic Variables

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**Abstract.** Goods and Service Tax(GST) being India's biggest indirect tax reform since independence is based on the idea of "One Nation, One Tax, One Market ". It is the tax which has subsumed 23 cess and 17 indirect taxes levied by the central and state government like excise duty, service tax, VAT, etc. and is mainly expected to address the issue of cascading effect of the earlier tax structure. However, since its implementation i.e. on 1<sup>st</sup>, July, 2017 the government is changing its provisions every now and then and thus leading to the situation of ambiguity and chaos. It is not wrong to state that it is like" Building a ship while sailing". So, this paper tries to explain the shortcomings and the problems which people are facing in the current GST regime. The paper also analyses the impact of GST on macroeconomics factors like inflation, GDP and on other factors like industrial growth, tax revenue, etc.

**KEYWORDS:** Consumer price index (CPI), GST, Index of industrial production (IIP), revenue.

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## 1. Introduction

Earlier India was under the indirect tax regime however, with the constitutional amendment(122<sup>nd</sup>) bill, a new tax structure i.e. GST came into being which is a destination-based tax. Applicable at the national level, it is levied on manufacture and sale of goods and services. Here, credits of input tax being paid can be claimed at subsequent stage and thus, it works on the principle of VAT. Currently, it has seven slabs- 0%, 0.25%(for rough diamonds), 3%(for gold), 5%, 12%, 18% and 28%. Also, keeping in view the federal structure of India, council has adopted the dual GST model wherein the collection will go to both center as well as state. For inter-state supply, it is IGST which is applicable whereas, for intra state it is CGST and IGST which are applicable.

GST being the largest reform was implemented with the hopes that it will bring the economy on the path of growth but whether it has happened or not becomes a question. So, this paper tries to give the answer for the same. Section 1 of the paper talks about the few challenges or disadvantages of the current GST regime. Section 2 of the paper contains a table which shows

the impact that GST had on inflation, IIP and tax collections in the last 6 months and Analysis of the table is done thereafter. Then next section i.e. section 3 has a graph which shows the impact of GST on GDP and the reasons for such an impact is also stated. lastly, section 4 of the paper gives some suggestions that can be taken into consideration to make GST a hit.

## 2. Literature Review

- Mawuli, Agogo. (2014) in his study found that GST is not good for low income countries as it may hinder its growth but even if they want to implement it then the rate should be less than 10%.
- Pinki, Kamma, Supriya and Verma, Richa. (2014) concluded that GST will be beneficial for Indian government as well as consumers in long run if backed by strong IT infrastructure.
- Gupta, Nishita. (2014) in her study concluded that GST will indeed lead to economic development and India will be able to untap some commercial benefits which remained untouched in VAT system.
- Sehrawat, Monika. and Dhanda, Upasana. (2015) stated that Consumption and production of goods and services is undoubtedly increasing but because of multiple tax rates, administration complexities and compliance cost is also accelerating. Thus, a simple, user-friendly and transparent tax system is required.
- M. Poonam, (2017) in her study stated certain benefits of GST like cascading effect will reduce, Indian manufactured item will become more competitive, it will lead to greater economic growth and transparency in the system will lead to easy administration.
- Kumar, A.N. (2017) stated that GST will lead to 2% increase in GDP, budget deficit will reduce and thus, govt. can allocate more funds to development projects.
- Sharma, Priyanshu. and Sain, Manoj. (2017) in their study concluded that GST has led to increase in stock prices. Further GST will lead to greater revenue, improvements in tax compliances etc. He also suggested that there should be consensus on threshold limit of tax rates and petroleum products, Liquor and electricity should also come under the ambit of GST.

### **3. Objectives of the Study**

The study has the following objectives: -

- i. To explain the shortcomings/ problems which people are facing because of GST.
- ii. To analyze the impact that GST had on the factors such as inflation, industrial production index, revenue from tax collections and GDP since its implementation.
- iii. To mentions few steps that govt can take to make GST more effective.

### **4. Research Methodology**

The study used an exploratory research technique based on past literatures from journals, magazines, newspaper articles, etc. which are related to goods and service tax. According to the objectives of the research, the research design used is analytical and descriptive in nature.

### **5. Result Analysis**

#### **5.1 Various Shortcomings and Challenges which People are facing Under GST**

There is no doubt on the fact that GST has offered lot of benefits like reduction in cascading of taxes, will lead to formation of single market, corruption will be curbed substantially, prices will come down gradually, higher tax compliances, India has moved up in the “Ease of doing business” index, reduced transactional costs, FDI has increased etc. but at the same time it is not wrong to say that it has certain shortcomings also. The following are few of the issues in GST: -

- i. The frequent changes in the tax rates, legal aspects and adjustments which the firms and the tax payers had to execute impacted their normal functioning. Example- the frequent revisions in the format to pay taxes has caused the GST software providing firms to upgrade their system every now and then, the return filers are also confused which leads to delay in tax fillings.
- ii. Even though it is justifiable to not have a single tax slab for all kind of products but having seven tax slabs and highest being 28% is also not correct.
- iii. The price-based tax approach is also conflicting in nature i.e. for example in the tax structure a footwear costing less than Rs.500 is taxed at 5% whereas, for the footwears above Rs 500 the tax rate is 18%. Thus, there is a scope of misallocation of sales into lower

tax slab.

- iv. The inception of GST has also led to the disputes in the ongoing contracts which have been made before GST. For example- Two parties have entered into the contract of rendering some services during pre-GST, so there is a possibility that now those services have come under higher tax slab causing loss to the provider if executed at initially quoted prices and thus it will lead to dispute and will become a matter of civil law.
- v. IT glitches and lack of proper infrastructure- businesses are facing many problems because of the no. of returns that they need to file, system keeps hanging, connectivity issues are there, compliance costs are increasing, delayed in grievance redressal, e-way bill couldn't be introduced timely etc.
- vi. From the view point of economy also GST has become a hinderance in the growth as it has led to lower cashflows, lower consumptions, lower inventory management etc.
- vii. In case of inter-state transfers In case of inter-state transfers, the taxes are paid first and later at a time of raising invoices (which can defer by a month also) the input tax can be claimed which leads to increase in working capital requirements.
- viii. Since, GST is a destination-based tax, so states which are into manufacturing like Maharashtra, Jharkhand, etc. might face losses in terms of tax collections.

## 5.2 IMPACT OF GST ON CPI, IIP and Tax Collection

**Table-1:** Data on CPI, IIP and GST collections of last ten months

MONTH	CPI (%)	IIP (%)	GST COLLECTION (RS CR)
APRIL,2017	2.99	3.2	NA
MAY,2017	2.18	2.9	NA
JUNE,2017	1.54	-0.3	NA
JULY,2017	2.36	1	94,063
AUG,2017	3.36	4.8	90,699
SEPT,2017	3.28	4.1	92,150
OCT,2017	3.58	2	83,346
NOV,2017	4.88	8.8	80,808
DEC,2017	5.21	7.1	86,703
JAN,2018	5.07	NOT RELEASED	86,312

\*Sources-CPI and IIP Ministry of Statistics and Programme Implementation. And GST collection by Ministry of Finance

**CPI (Consumer Price Index)**- It measures the level of changes in the prices of the basket of consumer goods and services.

**IIP** (Index of Industrial Production)- It measures the growth of various sectors like mining, manufacturing and electricity.

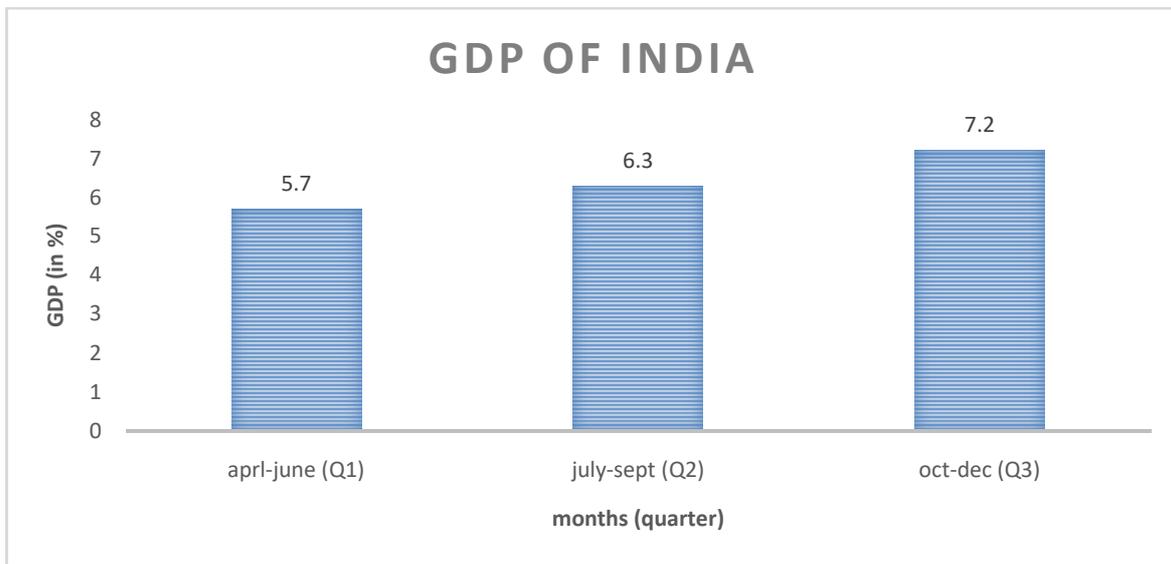
GST was touted as a non-inflationary tax because it was expected that it will bring down the prices of goods. But, the table shows that CPI numbers are increasing after the implementation of GST i.e. from being 1.54% in June,2017 (before implementation) to 5.07% in Jan,2018 (within 6 months of implementation). The main reason is the uncertainty factor that has forced the firms to raise the prices initially and now, they have failed to pass on the benefits of reduced prices to consumers. However, the analysis is done for a very short period and plus seasonal inflation has also played its role. **So, we can say that GST is short term inflationary in nature and is expected to go down after 1-2 quarters.** Next, we can see the IIP trends in the table. Earlier the growth in the industry was quite low i.e. from July to Sept the average was around 2.97% however later in Nov,2017 the growth rate directly shoots to 8.8%. The main reason for this change was the favorable base effect coupled with inventory rebuilding after the festival season. In fact, it can be called as the “catch-up activity” after GST related disruptions, it also suggests that organized sectors have adopted the GST transition. But, if we see the Dec figures i.e. 7.1%, the growth rate again fell down because of deceleration in manufacturing and mining activities. **So, the overall GST impact on IIP is favorable and we can expect 7-8% growth in coming quarters.**

Talking about the tax collections, in July,2017 it was as high as Rs. 94,063Cr and the reason was the high tax rates and IGST tax inflow was very high but slowly it kept on decreasing till Nov,2017 because of the rate cuts on several products, tax administration being based on self-compliance, e-way bill being postponed and also it is noticed by the ministry that initially for 3 months tax inflow was high because of IGST but now, people have started using their input credits while paying for taxes on final transactions which has led to lower inflows of taxes. For example, earlier traders paid IGST on interstate transactions (say Rs.500 is paid as a tax in the month of July ) which leads to GST collection but as and when the final transaction takes place, they use the credit of IGST (as input credit) for paying the SGST and CGST on final product (Example-Rs.600 for the final transaction and the trader will take the credit of Rs 500 and will ultimately pay Rs.100 in say the month of Nov ) and thus, revenue collection will drop down. However, GST collection again increased in Dec,2017 even after further rate cuts which signifies

greater tax compliance, economy is recovering, no. of return filling is increasing, etc. The govt is expecting more collections in coming months because till now only 70% people have filed the returns out of 1.03 crore registered persons and e-way bill will also lead to increase in tax collections. So, even though tax collection is increasing slowly but still it is less than the expected collection of Rs. 1 lakh every month. This situation can lead to more fiscal deficit and further rationalization of rates can come to halt.

### 5.3 Impact of GST on GDP

**Graph-1:** Data on GDP of India for the last three quarters



Talking about the impact of GST on GDP, it can be seen that the 1<sup>st</sup> quarter of FY i.e. pre-GST period, the growth rate stood at 5.7% only and the reasons for the same was the currency ban and also, businesses reduced their stock holdings because of uncertainties involved before GST implementation which led to fall in manufacturing activities. However, in the 2<sup>nd</sup> quarter the growth rate picked its pace and rose to 6.3% which signals that economy has weathered the transitional challenges of GST, manufacturing activities accelerated due to restocking, improvement was seen in private consumptions, investments have started increasing, etc.

Then in 3<sup>rd</sup> quarter the trend continued and growth rate stood at 7.2% which is the highest since five quarters. With such a high rate, India regained its title of fastest growing economy leaving China behind. Thus, we can say that growth momentum under GST is increasing which

shows that the effect of note-ban and GST related disruptions has faded, manufacturing and service sector is continuously growing and it is expected that growth rate will continue to increase in upcoming years also. The only concern left is the low to moderate growth in farm and construction sector which are the job generating sectors of India.

#### **5.4 Suggestions to Get Better Results from GST**

- i. Government should try to bring stability in the system by not changing the tax rates too frequently. Also, the highest tax slab i.e. 28% should be removed as it is too high as per the international standards.
- ii. The GST council should reduce the number of tax slabs. Currently there are seven slabs in total. So, they can try to reduce them to 3-4 only.
- iii. GST council can also take a call on inclusion of petrol and liquor products since they are not constitutionally debarred.
- iv. The government should try to develop trust in the people regarding the GST and its impact.
- v. The portal of GST filling should be made more user friendly and easy enough so that a common man can also use it efficiently.
- vi. E-way bill for both interstate and intra state should be implemented promptly etc.

#### **6. Conclusions**

GST which took 13 years to conceptualize finally got implemented on July,2017. Even though in long run it is very beneficial for India and its economy but its short run effect on businesses, people and government has been disruptive. At one end, inflation of India is increasing and at the other end it is putting a dent on the growth of India. Business houses are also suffering from setbacks like huge number of returns have to be filed, stock holdings have reduced etc. So, now is the time when government should take prompt actions to regain the confidence of masses and corporate houses, it should simplify certain processes and procedures, etc.

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