



## **GST: A GAME CHANGER FOR THE INDIAN ECONOMY**

### **Abstract:**

*As India has already implemented GST from 1<sup>st</sup> July-2017, there have been many discussions on this emerging topic. With an intention to discuss this emerging phenomenon neutrally and free from any political biasness, it was always necessary to be discuss from the ground reality. There are some changes in indirect tax will considerably affect positively or adversely. The objective of the study is to enlighten the impact of change in indirect tax regime. This particular change will definitely bring some benefits and losses depending upon the concerned economical status of the people. The conclusion indicates that the common people will benefits due to lower tax on essential items. The intention of the central government seems very clear, as high tax is imposed on those products or services who can afford them.*

**Key Words:** *GST, tax rates, per capita income, inflation, weaker-class, middle-class and rich-class of the society*

### **INTRODUCTION:**

It has been termed a potential game changer; the single biggest tax reform undertaken by India in 70 years of independence. The central government has founded the concept of “one nation, one market, one tax.” Many indirect taxes has been made history by imposing GST. This will certainly reduce many administrative process and cumbersome tax payment procedure too.

The moment, which India has waited for more than a decade, is finally beckoning. On 1<sup>st</sup> July-2017, a single indirect tax regime will kick into force in Asia’s third largest economy, dismantling inter-state barriers to trade in goods and services.

“The rollout of the goods and services tax (GST) on 1 July will, in a single stroke, convert India into a unified, continent-sized market of 1.3 billion people,” Prime Minister Narendra Modi wrote in an oped for the Wall Street Journal on his visit to the US in the last week of June.

Essentially, the \$2.4-trillion economy is making a bold attempt to transform itself by removing internal tariff barriers and collapsing 17 central, state and local body taxes into a single GST.

Corporate and consumer expectations of the tax reform, which some economists say could add between 1 and 2 percentage points to India’s annual growth rate, are high. Modi’s National Democratic Alliance (NDA) government pulled it off by amending the Constitution—a feat difficult to achieve in nations where states and local bodies enjoy sovereignty in taxation.

The US, for example, has not implemented a GST yet. The place of GST in the government’s priority list is evident from the fact that the seminal tax reform will be ushered in at a midnight ceremony in the Parliament’s central hall attended by President Pranab Mukherjee and state chief ministers besides Modi.

Policymakers are betting on GST to achieve various economic goals in one stroke—promoting the manufacturing sector, boosting exports by making production more competitive, creating more jobs, improving the investment climate, cutting down tax evasion and lowering the compliance cost to businesses.<sup>1</sup>

The guiding principles for the GST Council in deciding tax rates was the GST rate should be close to the current effective tax burden on various items so that the transition in the new indirect tax system revenue-neutral. Although there are different slabs-5%, 12%, 18% and 28%-most of the commodities fall in the 12% to 18% slabs. GST could also reduce avoidable litigation. A large part of tax litigation in India is around tax exemptions, which the new system seeks to minimize.

### **OBJECTIVES:**

The prime objective of this research study is to explore the impact of change in GST rates on various class of people i.e. poor-class, middle-class and rich-class. Due to change in indirect tax regime, few products or services will come cheaper which may induce inflation and vice-versa. This research work has undertaken most common products or services which will have good impact on the budget of people.

### **RESEARCH METHODOLOGY:**

**Collection of Samples:** With an aim to justify the research intention, the researcher has collected on few products or services from each categories. This convenient sampling gives overall picture of its concerned categories i.e. Product on which Tax Burden Comes Down/Goes Up. Majority of sample includes most common products or services which directly concerned with the people.

**Sample Size:** This study has undertaken ten to eleven samples of which rates are changed significantly. This leads to researcher to represent impact of change in GST rates on poor-class, middle-class and rich-class of people.

**Source of Data:** To justify the title of the research, it always necessary to reply upon most authentic data only. So is this study, the researcher gathered data from the GST Council website.

**Data Collection Technique:** The convenient sampling technique is included for justifying various objectives of the study. Only those samples have included which will have significant impact on the budget of various classes of people.

**Data Analysis Tools and Techniques:** Based on available data, only comparative analysis is suitable for better interpretation and discussion. Due to less number of samples and its nature, use of statistical use is not feasible.

**ANALYSIS AND INTERPRETATION:****Product on which Tax Burden Comes Down**

(In %)

<b>Product</b>	<b>Previous Effective Tax*</b>	<b>GST Rate</b>
Mobile phones	20.02	12
Foot wares (below Rs.500)	14.41	5
Ready-made garments	18.16	12
Cars for the handicapped	20-22	18
Medicines	11	5
Renewable energy devices	17-18	5
Iron ore	17-18	5
Music instruments (handmade)	0-12.5	0
Contact lenses	18	12
Processed food	14	12

(Source: GST Council)

(\*Previous effective tax includes central excise duty, value-added tax (VAT) and various local levies)

The above represents product on which tax burden comes down, means these products are going to be cheaper for as compared other products. The products like mobile phone, foot wares, medicines, Renewable energy devices, and Iron ore will be cheaper. The music instruments (handmade) have significant price reduction as rate decline from 12.5% to 0 %. The Centre Government focuses on middle-class and below middle-class as all these relevant products are tend to be cheaper. A reduction in Iron ore will definitely offer direct and indirect benefits to financially weaker section of the society.

**Product on which Tax Burden Goes Up**

(In %)

<b>Product</b>	<b>Previous Effective Tax*</b>	<b>GST Rate</b>
Butter	5.66	12
Television	24.39	28
Footwear (above Rs.500)	14.41	18
Biscuits (above Rs.100/kg)	16.09	18
Corn flakes	9.86	18
Wristwatch	20.64	28
Jam	5.66	18
Baby food (sold in unit containers)	7.06	18
Small cars (<4m<1200cc petrol)	25-27	28+1**
Small cars (<4m<1200cc diesel)	25-27	28+3**
Mid segment (<1500cc)	36-40	28+15**

(Source: GST Council)

(\*Previous effective tax includes central excise duty, value-added tax (VAT) and various local levies) (\*\* GST compassion cess)

There is considerable increase in tax rate for butter, corn flakes, jam, baby food and small cars. The intention of the Centre Government can be visualized as it has focused on those products which are relevant higher middle class people. It is an appreciable decision of the Central Government as rate hikes are applicable for those who can afford hikes in prices. A shocking news for baby foods items as rate is going to increase from 7.06% to 18% and for corn flakes and Jam, there is almost double tax is imposed. So there will be a sharp rise in price for few products of kids tend increase considerably.

### Services on which Tax Burden Goes Up

(In %)

Product	Previous Effective Tax*	GST Rate
Renting of motor cabs (when fuel cost borne by customer)	6	18
Tour operators' service	1.5	5
Supply of food/drinks in AC restaurant or 5 stars or above rated hotels)	6	18
Hotel stay where room tariff is between Rs. 1,000-Rs.2,500)	9	12
Hotel stay where room tariff is between Rs. 2,500-Rs.7,500)	9	18
Hotel stay where room tariff is above Rs. 7,500	9	28

(Source: GST Council)

(\* Takes into account the portion of service value on which tax is applicable. The comparison of rates are only approximates)

Although the proposed GST rate on many services is higher than the current applicable service tax-15% on specified fraction of the service value –GST eases the tax burden on them. That is because in addition to service tax, these services currently also bear VAT levied by state governments which make the combined tax burden higher than the GST rates proposed. Due to this new tax regime, services like cabs, food/drink in AC restaurant and hotel stays will have severe effect. Higher middle class or rich class, who prefer costlier hotel stays, will have pay more due to higher tax on services on hotel industries.

### Product at Zero GST Rate

1. Meat other than frozen and in unit containers
2. Fish, fresh or chilled
3. Milk and dairy products
4. Eggs and salt
5. Human blood and components
6. Contraceptives
7. Fresh fruits and vegetables
8. Non branded cereals, flour and jiggery
9. Unbranded organic manure

10. Judicial and non-judicial stamp papers, inland letters and post cards.

11. Non precious metal bangles, agriculture and hand tools

These are the products which has no GST. This will certainly benefit to lower class and middle class people as majority of the product are directly or indirectly related to these classes of people. This indicates some high degree of consciousness of central government towards weaker sections of the society.

### **FINDINGS:**

From the above brief discussion, it can be firmly concluded by adding that the central government has taken very intensive and serious efforts not for the implementation of the GST but has considered essential steps and decide appropriate tax regime for the concerned people. Directly or indirectly, irrespective of the current economical status of the people will get some definite benefits after the execution of the GST. At large, the common people will get optimum benefits through GST as it will not only increase the income of the state and central governments through tax collection as many new tax payers will add due to transparency in the system but it will also lower inflation and increase per capita income of the people.

### **CONCLUSION:**

The implementation of the GST is one step forward toward of the dream of our honorable prime minister Shri Narenra Modi i.e. "Acche Din". The roll out of GST will prosper the financial position of all the state governments and central government. This will lead to initiate more development related programs, high quality of public services and increment in per capita and GDP. This discussion documents to prove that GST will be a absolutely a game changer in Indian economy.

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