“SWOT Analysis of Goods and Service Tax and It’s Impact on Indian Economy”

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Abstract:

GST mean Goods and Services Tax. Goods and Services Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. One of the biggest taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth. Previously, companies and businesses pay lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, octroi and luxury tax. After implementation of GST all these taxes are ceased to exist. There is only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied — at the final point of consumption and not at the manufacturing stage. Previously, separate tax rates were applied to goods and services. Under GST, there is only one tax rate for both goods and services. The goods and service Tax is indeed a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and service taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down over time as a uniform tax rate is applied. It will also improve government’s fiscal health as the tax collection system would become more transparent, making tax evasion difficult. An attempt is made in this paper to study SWOT Analysis, the concept of goods and service tax and its impact on Indian economy. The study also aims to know the advantages and challenges of GST in Indian scenario.

Keywords: Goods and Services Tax, Indian Economy, Central Government, State Government, SWOT, value added tax.

Introduction

GST mean Good and Service Tax. A very significant improvement over the local sales tax system is Goods and Services Tax (GST). GST, one of the biggest taxation reforms in India is all set to assimilate Economies of the State and boost up the overall economic growth. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee Government in 2000. GST was contemplated in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003, named Kelkar Committee. The Kelkar Committee was convinced that a dual GST system shall be able to tax almost all the goods and services and the Indian economy shall be able to have wider market of tax base, improve revenue collection through levying and collection of indirect tax and more pragmatic approach of efficient resource allocation. Under the Goods and Service Tax mechanism, every person is liable to pay tax on output and shall be entitled to enjoy credit on input tax paid and tax shall be only on the amount of value added. Accordingly, the constitutional amendment for the same was passed by the Lok Sabha on 6th May, 2015. GST system was launched at a function in Central
Hall of Parliament on 1st July 2017 (Friday midnight). GST, which embodies the principle of "one nation, one tax, one market" is aimed at unifying the country's $2 trillion economy and 1.3 billion people into a common market. Under GST, goods and services fall under five tax categories: 0%, 5%, 12%, 18% and 28%. For corporate, the elimination of multiple taxes will improve the ease of doing business. And for consumers, the biggest advantage would be in terms of a reduction in the overall tax burden on goods. "Inflation will come down, tax avoidance will be difficult, India's GDP will be benefitted and extra resources will be used for welfare of poor and weaker section," Finance Minister Arun Jaitley said at GST launch event in Parliament. The Lok Sabha has finally Passed Thus, there would be only one tax, at the national level, and it will be monitored by Central Government of India. After the implementation of GST there is only one tax for every good and services. Assimilation of taxation of goods and services would be a great move by the Indian Government and would also help them in tax collections. The expectations from GST is to create a business-friendly environment, as cost price and henceforth, rate of inflation would fall over a period of time as a uniform tax rate would be applicable. GST Bill and it is expected to have a significant impact on every industry and every consumer.

**Research Methodology**

The Research paper is descriptive type and is based on empirical study. Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Servicetax.

**Objective of study:**
- To highlight Impact of GST on Indian Economy
- To know the advantages and challenges of GST in Indian context.
- To understand SWOT analysis of GST

**Importance of the Study:**
1. The study will highlight the effect of GST on Indian Economy.
2. It will prove to be of great help to a common man to understand the concept the GST.
3. It will remove the morbid fear of GST from among the business community members.

**Need for GST:**
- The main reason behind introducing GST is to improve the economy of the nation.
- VAT rates and regulations differ from state to state. It has been observed that states often resort to slashing these rates for attracting investors. This results in loss of revenue for both the Central as well as State government.
- On the other hand, GST brings in uniform tax laws across all the states spanning across diverse industries. Here, the taxes would be divided between the Central and State government based on a pre-defined and pre-approved formula. In addition, it would become much easier to offer services and goods uniformly across the nation, since there won’t be any additional state-levied tax.
Features of GST
1. GST is one indirect tax for the entire nation, which will make India “one unified common market”.
2. It will replace multiple taxes like VAT, CST, Excise Duty, Entry Tax, Octroi, LBT, Luxury Tax etc.
3. There are four types of GST namely:
   a) SGST – State GST, collected by the State Govt.
   b) CGST – Central GST, collected by the Central Govt.
   c) IGST – Integrated GST, collected by the Central Govt.
   d) UTGST – Union Territory GST, collected by the Union Territory
4. Tax Payers with an aggregate turnover in a financial year up to [Rs. 20 Lakhs & Rs. 10 Lakhs for North Eastern Sates and Special Category States] would be exempted from tax.
5. GST slabs are pegged at 5%, 12%, 18% & 28%.

Impact of GST in India:
Positive Impact of GST in India:
- GST is a single taxation system that will reduce the number of indirect taxes. From now, a single taxation term would cover all of those indirect taxes.
- The prices of products and services would reduce; thus this system would prove to be beneficial for the people who are fed up of paying high prices.
- This would reduce the burden from the state and the central government. With the introduction of GST, all indirect taxes would come under a single roof.
- GST would not be charged at every point of sale like other indirect taxes so in this way, market would be developed.
- Corruption-free taxation system. GST would introduce corruption-free taxation system.
- Less tax compliance.
- Removes cascading effect of taxes.
- Manufacturing costs will be reduced, hence prices of consumer goods likely to come down.
- Due to reduced costs some products like cars, FMCG etc. will become cheaper.
- A unified tax regime will lead to less corruption which will indirectly affect the common man.

Negative Impact of GST in India:
1. The introduction of GST in the country will impact real estate market. This would increase new home buying price by 8% and reduce buyers” market by 12%.
2. GST is a mystifying term where double tax is charged in the name of a single tax.
3. Most of the dealers don’t pay central excise tax and cheat the government by simply giving the VAT. But all of those dealers would now be forced to pay GST.

4. The short-term impact of GST is expected to be neutral-to negative for the broader economy.

5. Production processes are likely to take some time to align with the new framework as firms adjust to the input tax credit system and better manage working capital requirements.

6. For consumers, it will be a mixed bag as some goods become cheaper while others will be expensive.

7. Services will become expensive e.g. Telecom, banking, airline etc.

8. Being a new tax, it will take some time for the people to understand its implications.

9. There are always some complications attached. It is a consumption based tax, so in case of services the place where service is provided needs to be determined.

10. If actual benefit is not passed to consumer and seller increases his profit margin, the prices of goods can also see a rising trend.

However, GST is a long term strategy and the positive impact shall be seen in the long run only. Let us hope GST proves to be a game changer in a positive way and proves to be beneficial to the common man.

**Impact of GST on Indian Economy**

The Goods and Service Tax (GST) bill is expected to have wide ranging ramifications for the complicated taxation system in the country. It is likely to improve the country’s tax to GDP ratio and also inhibit inflation. However, the reform is likely to benefit the manufacturing sector but may make things difficult for the services sector. Though there are expectations that the GDP growth is likely to go up by 1 to 2%, the results can only be analyzed after the GST implementation. While the New Zealand economy had a higher GDP growth, it was lower in case of Canada, Australia and Thailand after the GST was implemented. The one per cent tax that has been proposed as a sop to appease the States for compensating their loss of revenue from the interstate CST is likely to play a spoiler sport. It is probable that it may affect the GDP adversely. The Congress is already opposing the 1 per cent tax. The GST rate ranges from 0% to 28%. This tax rate is not likely to give any incremental tax revenue to the government. The rate will prove beneficial for the manufacturing sector where the tax rate is around 24% at present. The major manufacturing sectors that will benefit the most are FMCG, Auto and Cement. This is because they were previously reeling under 24 to 38% per cent tax. The sector which is going to be adversely affected is the services sector. Already there has been a hike from 12 to 14% from the 1st of June last year. Another 4 per cent increase will break their backs. The uniformity in the taxation rate is fine but it should not result in disparity for the goods and services sectors. Nobody has thought of the implications it will have in the services sector if the government moots a higher GST rate like 20% or 24%. The higher GST rate will definitely boost the tax to GDP ratio, while giving financial muscle to the government for increasing the capital expenditure.

There is definitely a silver lining to the whole exercise. The unorganized sector which enjoys the cost advantage equal to the taxation rate can be brought under the GST bill. This will bring a lot of unorganized players into the fields like electrical, paints, hardware etc.
under the tax net. It is easier said than done. It will take a lot of meticulous planning in the implementation of the GST reform for capturing the unorganized sector under its ambit. For one, it will widen the tax reach and secondly it will benefit the organized players who lose out revenue to the unorganized sector at present. There are still a lot of unchartered territories which need to be looked into through parliamentary discussions in the sessions. This will bring sanctity to the taxation system without hurting any of the sectors adversely. To The Individuals and Companies with the collection of both the central and state taxes proposed to be made at the point of sale, both components will be charged on the manufacturing costs and the individual will benefit from lowered to increase in consumption thereby profiting companies.

SWOT Analysis of GST

Strengths of Goods and Service Tax in India

1) It will be dropping out the cascading effects of tax on production and distribution of goods and services which will competitiveness and consequently, GDP will increase.
2) It will apply all goods and services except some exempted products
3) Tobacco is not exempted from the area of GST. It is treated as Sin goods and come under the taxation with central excise tax.
4) Natural gas, Aviation Turbine Fuel (ATF), High Speed Diesel (HSD), Crude oil, Petrol products are exempted till the GSTC (Goods and Service Tax Council) discloses date of their formation.
5) Alcohol, real estate, custom duty and electricity are exempted from GST. (Proposed article, 366 (12A).
6) GST would be dual taxation system. It would be charged intra-State by Central and State Governments. It would be called CGST (Central Goods and Service Tax) and SGST (State Goods and Service Tax).

Weaknesses of GST System in India

1) The doorstep goal is very ground level for traders and service providers. It will raise appropriation of government ways and means which are costlier than government’s revenue.
2) GST is a subsume of various States and Central taxes like excise duty, cess, service tax, countervailing duty etc., but many more are left which should be included like electricity, alcohol etc.
3) GST for States and Central (SGST, CGST) seem to be different, further it can be diversified on the basis of location, geographical structure etc.
4) The tax rate is depending upon availability offund in States. The States has power to increase the rate according to their need.
5) This system is very fond of technology, but India is a developing country where people are not habitual of technology.
Opportunities of GST in India

1) The rates of tax are set at ground level which will help States and Unions to collect more revenue.
2) It will reduce the transaction costs and wastages of scarce resources because at a one registration people can do transactions from States and Unions. So, it will connect the wholenation from a single click.
3) In indirect tax structure multiple taxes were charged from taxpayers. But GST will eliminate the taxes on chain of transactions.
4) GST is also known as “One Point Single Taxation System”. This is a helping hand for business man’s, they can come to agreement on price modalities, supply chain etc.,
5) GST will reduce average tax burden of consumers. They will be certain about their taxes which will reduce evasion of taxes.
6) GST can provide the opportunity of Corruption Free Indian Revenue Services. The root of corruption found in political system. It will bring transparency in Indian political system.

Threats of GST in India

1) Inter-States supply of goods and services are considered as import and IGST will be applied (1%) in addition to custom duties.
2) The Central government promised for compensation to loss making States for a period of 5 years. The compensation will be as: 100% for first 3 years, 75% for 4th year and 50% for 5th year. So, it is possible that all States does not implement it in effective manner to get compensation.
3) GST is not friendly with banking sector. Because the cost of goods become cheaper after GST and it will promote export. Previously, 14% service tax was levied on banking transactions. GST will make these transactions costlier. Over and above, in most of countries banking sector is excluded from GST.
4) GSTC (Goods and Service Tax Council) will set the benchmark for resolving the dispute on recommendations of GSTC. It means GSTC will lay down the criteria for GSTC itself. It is against the principle of natural justice.
5) GST is not a guarantee in itself that it would not be influenced by political parties and politicians will not use it as a win-loss game.

Conclusion

Tax policies play an important role on the economy through their impact on both efficiencies and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development. The ongoing tax reforms on moving to a goods and services tax would impact the national economy, international trade, firms and the consumers. There has been a good deal of criticism as well as appraisals of the proposed Goods and Services Tax regime. It is considered to be a major improvement over the previous central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country.
GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax. A single rate would help maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some ‘special’ goods and/or services. This will reduce litigation on classification issues.

It is also expected that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government. Sooner or later, the GST will surely knock the doors of India. And when that happens, we as future torch bearers of the profession are required to be prepared and fully equipped with our knowledge regarding GST. Forewarned is forearmed. Thus, we must be ready to deal with GST and many other changes that are going to take place in India. Slowly, India shall move to join the world wide standards in taxation, corporate laws and managerial practices and beamong the leaders in these fields. In short GST is at the infant stage in Indian economy. It will take some time to experience its effects on Indian economy. GST mechanism is designed in such a way that it is expected to generate good amount of revenue for both central and state government. Regarding corporate, businessmen and service providers it will be beneficial in the long run. It will bring transparency in collection of indirect taxes benefiting both the Government and the people of India.

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