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Impact of Goods and Service Tax on Indian Economy

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Abstract: *GST otherwise called the Goods and Services Tax is characterized as the mammoth indirect tax structure which is intended to help and improve the financial as well as the economic development of a nation. In excess of more than 150 nations have implemented GST up until this point. Nonetheless, the possibility of GST in India was mooted by Vajpayee Government in the year 2000 and the sacred change for the same was passed by the Lok Sabha on 6th May 2015.*

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I Introduction

The Goods and Service Tax is a multi-tier tax where ultimate burden of tax falls on the consumer consuming the good or service. It is called as Value Added Tax as at every stage, with every addition of value, tax is being paid. Under this scheme, an individual who was liable to pay tax on his or her output- whether for provision of service or for sale of goods- is entitled to get Input Tax Credit (ITC) on the tax paid on the inputs, that is, for the purchases of goods or services, thus tax is being paid on the value addition, which is being paid to the Government.

In the context of India, GST was first proposed for the first time on February 28th 2006 by then Honorable Finance Minister in his budget speech for the year 2006-07. The current minister Shri Arun Jaitley, in his speech of budget dated February 28th 2015 for the year 2015-16 stated that GST was being eagerly awaited by the trade and the industries and it will be put in place state-of-the-art indirect tax system by April 1st 2016. The Goods and Service Tax had been implemented in India w.e.f July 1st 2017 through a memorable mid-night session on the June 30th 2017 or July 1st 2017 in the Parliament.

In India, on the intra state supply of goods and services, we have dual GST with equal rates, that is, the Central Goods and Service Tax (CGST) and the State Goods and Service Tax (SGST) and for the inter states supply of goods and services, we have Integrated Goods and Service Tax (IGST) which in total is the sum of both CGST and SGST.

It is overall acknowledged arrangement of tax assessment globally. It is considered for the products sold as well concerning the services rendered. It is an arrangement of tax collection where there is a solitary duty in the economy for goods and services. This is intended to unite the state economies and make a solitary tax collection framework in the whole nation for all merchandise and ventures. It when presented cancelled all the present indirect taxes.

It was an immense idea that simplified the monster impose structure by supporting and upgrading the monetary development of a nation. It is a far reaching charge require on assembling, deal and utilization of products and enterprises at a national level. The Goods and Services Tax Bill or GST Bill, likewise alluded to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, starts a Value included Tax to be executed a national level in India. It is an aberrant expense at all the phases of creation to achieve consistency in the framework.

On bringing GST into action, there was an amalgamation of Central and State taxes into a singular obligation portion. It also enhanced the circumstance of India in both, nearby and worldwide market. At the buyer level, GST diminished the general tax collection rate, which is presently assessed at 25-30%. Under this framework, the purchaser pays the final assess however an efficient input impose credit framework guarantees that there is no falling of duties assess on assess paid on inputs that go into make of merchandise. With a ultimate objective to avoid the portion of different obligations, for instance, separate commitment and organization evaluate at Central level and VAT at the State level, GST would tie together these charges and make a uniform market all through the country. Incorporation of various appraisals into a GST structure will bring around an eff ective cross-utilization of credits. The present system charges age, while the GST will intend to force usage.

The Goods and Service Tax Council also known as GSTC is a constitutional body constituted under the Article 279A of the Constitution of India. It is mandatory for GSTC to make recommendations on various matters associated with the GST and further under provisions which have been made under respective GST Laws whereby the Central and the State Government have to act on the recommendations made by the GSTC. Thus the GSTC plays a pivot role under the GST as it brings uniformity in the law and also a cooperative federalism.

Input Tax Credit or ITC refers to reducing of the taxes paid on the inputs from the taxes paid on the output. When a supply of Good or Service is supplied to a tax payer, the GST charged is known as the Input Credit.

This concept is not new as it was prevalent before GST came in the indirect taxes. It is just that the scope has widened. Earlier, it was not possible for a tax payer to claim Input Tax Credit for Central Sales Tax, Entry Tax, Luxury and other taxes. Moreover, the manufacturers and the service providers could not claim the Central Excise Duty. During pre-GST era, cross-credit of Value Added Tax (VAT) against the Services was not allowed. But in GST, since all taxes are subsumed into one tax there is no restriction of setting of the Input Tax Credit.ITC cannot be applied to all the types of Input as each State and Countries have different rules and regulations. It is the backbone of GST and for registered members, it is of a major concern.

For instance:- A is a manufacturer. Let say the tax to be paid on the final product is Rs.500 and the purchase tax paid is Rs. 350. He can claim Rs. 350 after paying Rs.500 (Rs. 500 – Rs. 350 = Rs. 150). Thus he pays Rs. 150 only rather than him paying Rs. 500.

II Literature Review

Eva (2008) in his paper has analyzed the cost of conforming to the indirect tax laws in the Slovak Republic by doing examination of small, medium and large business organizations through a survey and infers that the organizations particularly the small scale ones are not ready to and don't endeavor to measure the cost of consistence which is very high because of the complex law structure.

Crossley, (2009) wrote about the year 2009 in which the United Kingdom Government chose to diminish the VAT rate by a minor sum with a specific end goal to help the end customer spending. He also had examined and said in connection with his paper and inferred that if the VAT rate is reduced, then the spending by the general customers increments bringing about general lightness in the economy.

Ehtisham Ahmed and Satya Poddar (2009) contemplated and they found out that the GST when introduced in India will furnish simplier and straightforward indirect taxation framework with the increment in yield and efficiency of the Indian Economy. But the case is that the advantages of GST are fundamentally reliant on structure of GST which will be imposed on the Indian Economy.

Dr. R. Vasanthagopal (2011) talked in his paper that the GST will increase the potential of the Indian economy. As indicated by him, India is experiencing entangled expense framework. GST will give a lift to the Indian economy as the implementation of the GST will help India remove the cascading effect which has been a major fault in the past tax regime.

Borec (2013) in the paper have examined how assesses may conform to the VAT laws given that the GST is a goal based expense. He mainly concentrated on the part on how to manage B2C situations where the VAT compliances have to be dealt in the state where the client is found. He also talked about the troubles in this consistence particularly in the online businesses.

Pinki, Supriya Kamma and Richa Verma (2014) contemplated in their paper and inferred that the new NDA government in India is certain towards the execution of GST and it is advantageous for Central Government, State Government and also additionally for the buyers in the longer run if its usage is supported by a solid IT foundation.

III Research Methodology

It is said that a problem well defined is half solved. This step is to define the project problem and decide the objectives of research. The definition of the problem includes the Impact of GST on the Restaurant Industry**.**

The aim of research is to

- Analyze pros and cons of Goods and Service Tax on Indian Economy,
- Analyze the impact of GST on Restaurant Industry and to analyze the working of GST from Manufacturer's point of view.

The research was well planned and executed according to the guidelines and was completed in the period of 79 days. The methodology used by me in conducting the research is Exploratory Research Design. Being an explanatory research it is based on majorly on the secondary data of journals, articles, newspapers and magazines and primary data was collected by the business owners for better understanding. The reference period of the survey is from December 19, 2017 to March 31, 2018.

IV Data Analysis And Interpretation

Fulfilling the first objective of the study, following advantages were discovered

- Removing Cascading tax effect
- Higher threshold for registration
- Lesser compliances
- Increased efficiency in logistics
- Regulating the unorganized sector

The second objective of the study which showcases the impact of GST on the Restaurant Industry is as follows

As the Goods and Service Tax or the GST has been in effect on the Indian Society, business households are still trying to figure out the changes required in their current systems to easily fit the GST in their bills. According to National Restaurant Association of India, they stated in their 2013 India Food Service Report, that the current size of the Food Service Industry is approximately Rs. 247680 crore and they have projected that it will grow to Rs. 408040 crore by the year end 2018 with a rapid increase of approximately 11 percent. This growth is fueled with the growth of the Indian Middle Class. Rapid Urbanization, Growing Awareness of Western Lifestyle, Women Empowerment and Employee Generation, and Higher Disposable Income are some of the factors which contribute to the growth of the Indian Restaurant Industry. Thus, we find ourselves waiting for our turns in queues while dining out on weekends.

Understanding Your Resturant Bill

As we are the end customers, we hardly pay attention to our resturant bills and many of us are unaware of the components added during the genenration of the bill.

First let us know about the components of the pre-GST bill;-

- **VAT (Value Added Tax):-** This tax is charged on the proportion of food on the bill.
- **Service Tax:-** This tax is charged on the services rendered by the restaurant. (To avoid confusion, the Government of India had already bifurcated the service proportion and food proportion and then charge taxes accordingly.)
- **Service Charge:-** This charge is applied by the restaurants and not by the Government of India. Thus, it is not a tax. It should not be confused with the service tax as it is the extra income of the restaurant owner. Service Tax on the other hand is not an income but it has to be collected and submitted to the Government at a later stage.

However the rates of GST have changed gradually over a period of time. Following are the latest rates which are implemented on the restaurant industry at present.

Types of Restaurant	Goods and Service Tax Rates
All Restaurants	5 percent without ITC
Restaurants within the Hotels (Room Tariff is lesser than Rs. 7500)	5 percent without ITC
Restaurants within the Hotels (Room Tariff is greater than Rs. 7500)	18 percent with ITC
Outdoor Catering	18 percent with ITC

During the GST regime, the VAT and the Service Tax have been subsumed into a single rate, but there may be cases where one could still find Service Charge included in their bills.

Below there is a comparision between how the Restaurant bill looks like before and after the GST implementation in the Restaurant Industry.

EXAMPLE:-

Let say the total Consumption or the total Bill sums upto Rs. 5000.

Then Pre-GST, the bill would look like

Total	5000
Service Charge @ 10 percent	500
Service Tax @ 5.6 percent	308
KKC @ 0.2 percent	11
SBC @ 0.2 percent	11
VAT @ 14.5 percent	797.5
Total Amount Payable	**6627.5**

Then Post-GST, the bill looks like

Total	5000
Service Charge @ 10 percent	500
GST @ 18 percent	
CGST @ 9 percent	495
SGST @ 9 percent	495
Total Amount Payable	**6490**

Thus at a standard rate of 18 percent under the GST, the customer will save around Rs. 137.5 on a transaction of Rs. 5500. Here, I have assumed that the VAT applicable at 100 percent of the value without any deduction. Furthermore, when we see the effective rate of VAT it sums up to 20.5 percent which has come down to 18 percent with the introduction of GST.

Impact on Restaurant Business Owners

Particulars	**Billing under VAT**	**Billing under GST**
Wheat	100	100
Spices	300	300
Oil	200	200
TOTAL	**1500**	**1500**
VAT @ 5 percent (Generally these items are bracketed under the same set)	75	NA
GST @ 5 percent (Generally these items are bracketed under the same set)	NA	75
Particulars	**Billing under VAT**	**Billing under GST**
Total Bill	10000	10000
OUTPUT TAX		
VAT @ 14.5 percent	1450	NA
Service Tax @ 6 percent	600	NA
GST @ 5 percent	NA	500
Total Output Tax Liability	2050	500
INPUT CREDIT		
VAT ITC @ 1.5 percent	150	NA
GST ITC (No ITC	NA	Nil
FINAL OUTPUT TAX LIABILITY		
VAT	1300	NA
Service Tax	600	NA
GST		500

In the above example we can see that the total amount payable to the Tax Authorities under the VAT regime was Rs. 1900. However, under the GST regime, the net outflow of cash from the pocket of the businessman is only Rs. 250. It is due to the reduced rates applicable under the GST regime.

Thus, the conclusion is that GST has brought reasons to rejoice for both, the end customers as well as the businessman or the restaurant owner. This will also help to boost the restaurant industry in the coming period.

V Findings

- The total Indian Market has been unified due to One Nation One Tax. It has also facilitated in seamless movement of the Goods and the Services across the States with the additional benefit in reduction in the overall costing of the product.
- It has brought reasons to rejoice for both, the end customers as well as the businessman or the restaurant owner. This will also help to boost the restaurant industry in the coming period.
- The Suppliers, the Manufacturers, the Wholesalers and the Retailers are now able to recover the tax incurred on the input due to introduction of Input Tax Credit. This has also reduced the cost of doing business, thus enabling the manufacturers compete with the competitive pricing strategy in the international and national market.
- The GST has also formed uniformity between the States in tax point of view regardless of the place of manufacturing and place of consumption.
- It has also irradiated the cascading and the double taxation which has enabled better compliance through lower burden of tax on the Goods and the Services.

VI Limitations Of The Study

The possibility of respondent’s responses being biased cannot be ruled out.

1) Since the survey was conducted at a much smaller scale, it might be that the impact of GST on various sectors could be different with the perspective of the producer and the consumer.
2) Most of the times people don't give appropriate information.
3) The survey and data collection was to be conducted in a limited span of time which also is posed to be a limiting factor.

VII Suggestions

- The definition of the supply should be 'comprehensive' and not 'inclusive'. The definition of supply states that the 'supply includes' rather than stating 'supply means'. This will add up a lot of litigation. Supply of Capital Goods (whether for self or for the end customer consumption) should be kept outside the purview of GST, and only leasing, renting or transfer of right to use the asset be subjected to being taxed.
- The definition of Manufacturer can be delinked from the Central Excise Act and a more appropriate definition of term 'manufacture' be provided to avoid any litigation and interpretational issues.
- The time period of 30 or 60 days from the date of the issue of invoices by supplier is quite short considering time taken for delivery of the Goods with invoices and it may also create an unnecessary interest liability if the payment is not made within the 30 or 60 days. It is suggested that the time period limit prescribed in both the cases can be made up to 90 days by inclining with the previous provisions of the Service Tax**.**

VIII Conclusion

The Goods and Service Tax is a uniform single national tax levied around the country on all the Goods and Services produced or sold in India. All the Indirect Taxes like the Excise Duty, Octroi, Central Sales Tax and the Value Added Tax, etc. are subsumed into one single tax. With the introduction of GST, significant steps have been taken to reform the Indirect Taxation of the Nation. It has also brought in efficiency and transparency in the mechanism of the Indirect Taxes of India. Furthermore, with the introduction of GST, it has irradiated the unbiased tax structure by neutralizing the exemptions levied by the States to attract business in their geographical location. GST has a history and its history has proven that with the introduction of GST in by other countries, they have benefited in the long run. Comparing the benefit with India, the GST has helped in removing the distortions in the economy which were present in the past complex Indirect Taxation Structure. It has also helped the nation to develop a common market and the businesses to compete competitively locally as well as globally.

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