

## Implementation of GST & its impact on Indian economy

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### Abstract-

India is a 5<sup>th</sup> largest economy in the world with the population of around 1,387,297,452 people and its density of population 464 per Km<sup>2</sup> which means 1,202 people per mi<sup>2</sup>. Indian economy basically an informal sector economy where 78.2% of people are employed in informal sector and 22.8% employed in formal sector. According to India today report published in 2019, the employment in the formal sector has witnessed a rise from 17.9 % to 22.8% in 2019. Being an informal economy, Indian economy has its own complexity from indirect taxation perspective. To overcome the problems of indirect tax, Congress –led UPA Government introduced the GST (goods and service tax) bill in 2011 in Indian parliament and finally it was implemented midnight of 1 July 2017 by BJP Govt. just after eight months of Demonetisation which has proven as failure for Indian economy. Demonetisation and introduction of Rs 2000 currency following the implementation of GST has created a chaos into Indian consumers as well as firms and industries.

**Keywords-**Taxes, Supply, Demand, tax evasion, Demonetisation, GST, De-motivation, Scarcity

### Introduction

Goods and Services Tax or in short GST is an indirect tax levied on supply of goods and

services. After adding the total cost of the goods or services, the seller add the tax into the cost, and the price the consumers pay is inclusive of GST.

### **Types of GST in Indian indirect tax system**

**Central Goods & service tax-** In short CGST paid to the Indian Central Govt. taxes such as Central excise duty, Additional Excise duty, Special Excise Duty, Central Sales Tax, Service Tax etc. are to be added in CGST.

**State Goods & service tax-** In short SGST is paid to respective states of India. If Goods & services are produced within the boundary of a state, then SGST has to be added & it goes to the particular state. Taxes such as Value Added Tax, Entertainment Tax, Luxury Tax, and Entry fee Tax etc. are to be added in SGST.

**Union territory goods & service tax-** In short UGST paid to union territory without a legislature, the part of GST that the UT receives is called UGST. It's imposed on transactions take place in any union territory of India, such as Andaman and Nicobar Islands, Dadra and Nagar Haveli, Chandigarh, Lakshadweep and Daman and Diu. UGST is similar to SGST as far as in apportionment and payment rules are concerned.

**Integrated Goods & service tax-** In short IGST has to be charged on transfer of goods and services from one state to another state & Import of Goods and Services. For example, If Goods or services are manufactured or provided in Bihar & sold the same to Uttar Pradesh then IGST will be implemented and whole tax revenue will go to

Uttar Pradesh as IGST imposed during the point of consumption.

### **Implementation of GST and its slabs**

GST a common tax has been introduced in India on July 2017, just after 8 months of demonetisation and adjusted in goods and services into different tax slab.

#### **Goods & services not taken under GST-**

Few goods and services are not taxed on the basis of GST rules. However, these are being taxed separately under Excise duty and entertainment tax. Alcohol, Petroleum products crude oil, diesel, petrol, natural gas Tobacco products are taxed under excise duty & Entertainment such as cinema, theatres are levied by local authority under entertainment tax.

#### **Goods & services with No GST-**

Goods and services which are exempted from GST are flour, besan, bread, prasad, salt, eggs, milk, buttermilk, curd, natural honey, fresh fruits and vegetables. bindi, Sindoor, stamps, judicial papers, printed books, newspapers, Jute, Fresh meat, fish, bangles, handloom, Bones and horn cores, bone grist, bone meal, hoof meal, horn meal, Cereal grains, jaggery, Salt, Kajal, drawing or colouring books, human hair, hotels, guest house or lodges with room tariff less than Rs.1000.

#### **Goods & services with 5% GST-**

Goods and services which has 5% GST levied are medicines, packaged food items, cream, skimmed milk powder, branded paneer, frozen vegetables, coffee, fish fillet, tea, spices, pizza bread Sabudana, kerosene, coal, stent, lifeboats, Cashew

nut, Cashew nut in shell, Raisin, Ice and snow, Bio gas, Insulin, Agarbatti, Kites, Postage or revenue stamps, stamp-post marks, footwear below Rs 500, Apparel below Rs 1000 etc

#### **Goods & services with 12% GST-**

Goods and services which has 12% GST imposed are Ayurvedic medicines, Bhujia, namkeen, tooth powder, colouring books, picture books, frozen meat products, , sausage, fruit juices, umbrella, sewing machine, cell phones, Ketchup & Sauces, All diagnostic kits and reagents, Spoons, forks, ladles, skimmers, cake servers, fish knives, tongs, Spectacles, butter, cheese, ghee, dry fruits in packaged form, animal fat corrective, Playing cards, chess board, carom board and other board games, like Ludo, Services such as Non-AC Hotels, Work Contracts, Fertilizers, Business Class Air Ticket, State-run Lotteries

#### **Goods & services with 18% GST-**

Goods and services with 18% GST imposed are Biscuits, mineral water, notebooks, Trademarks, goodwill, software, BidiPatta, flavored refined sugar, pasta, cornflakes, pastries and cakes, preserved vegetables, jams, sauces, soups, ice cream, instant food mixes, tissues, envelopes, tampons, steel products, printed circuits, camera, speakers and monitors, Kajal pencil sticks, Headgear and parts thereof, Aluminum foil, footwear pricing more than Rs 500, Weighing Machinery (except electric or electronic weighing machinery), Printers (except multifunction printers), Electrical Transformer, CCTV, Optical Fiber, Bamboo furniture, Swimming pools, and padding pools, Curry paste; mayonnaise and salad dressings; mixed condiments and mixed

seasonings Services such as IT Services, Financial Services, Restaurants falling under 5-star hotels, Hotel rooms with tariff between Rs, 2500 and Rs 7500 and also the AC Hotels that serve liquor, Branded garments and telecom services.

### **Goods & services with 28% GST**

Goods and services where 28% GST is imposed are ATM, hair clippers, Bidis, chewing gum, molasses, chocolate not containing cocoa, ceramic tiles, water heater, dishwasher, weighing machine, washing machine, vending machines, waffles and wafers coated with chocolate, pan masala, aerated water, paint, deodorants, shaving creams, after shave, hair shampoo, dye, sunscreen, wallpaper, vacuum cleaner, shavers, automobiles, motorcycles, aircraft for personal use, Services such as hotels with room tariffs above Rs 7,500, race club betting, 5-star hotels, cinema, Private-run lotteries etc

### **Demonetisation effect and GST implementation & its impact**

With an attempt to curb black money Central Govt. led by Prime Minister Narendra Modi has taken an important decision and on 8 November 2016 the govt. announced the surprised demonetisation and launched Rs 2000 a high denomination currency in India. Indian Economist revealed that India has around 10% of black money in the form of cash and remaining are in the form of Gold, Properties and shares. Higher denomination note of Rs 2000 has created a chaos to the Indian economy. It is easy to keep Rs 2000 notes as it takes fewer notes and lesser space to store black money in the form of cash. As soon as Rs 2000 currency came to the market, fake currency of Rs 2000 also became available in Indian market. A simple example can be taken

into consideration to explain the loss of Rs 2000. A consumer who has received Rs 1000 fake note, it is Rs 1000 loss to him but after receiving Rs 2000 fake note, it will be loss of Rs 2000 to him and economy. Noble laureate in economics Abhijit Banerjee said, I never Understood Demonetisation Logic and even Noble Laureate in Economics AmartyaSen has also called Modi government's demonetisation move "despotic action that has struck at the root of economy based on trust". "It (demonetisation) undermines notes, it undermines bank accounts, it undermines the entire economy of trust.

There are many question marks on Govt. intention of Demonetisation

To curb just 10% of black money in the form of cash, Did Govt. decide to go for Demonetisation?

What about Rs 2000 a high denomination note?

Is it to control opposition?

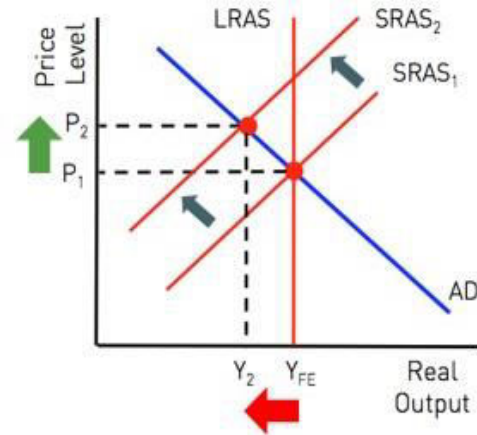
**RBI declared in its annual report 2017-18** that following demonetization 99.3 per cent (worth Rs 15.3 lakh crore) of the demonetised notes came back to the system. The statement itself raise question mark because Rs 15.41 lakh crore were in circulation before November 8, 2016 and Rs 15.3 lakh crore came back to the banks till 2018. Due to demonetisation there were around 1 lakh output losses to Indian economy. Demonetisation was a complete failure in India which has broken Indian economy's backbone and the following GST launched post demonetization has proven a wrong turn for Indian economy.

Demonetisation and GST has shaken the Indian economy **with world second highest tax structure 28% GST** in the world. Many economist and economic organisations has warned its worse consequences. **Economist Dr.**

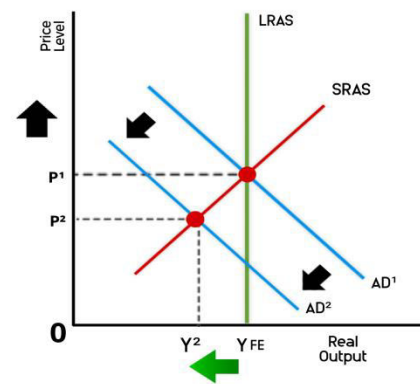
**Subramanian Swamy said**, GST the biggest madness of 21st century. "This GST is so complicated that nobody understands which form to fill or where they want it to be uploaded. Shortage of demand is the problem currently faced by the country. He further added for rewarding those who invest. "Don't terrorise the investors. **The then RBI Governor Raghuram Rajan** said successive shocks of demonetisation and the GST had a serious impact on growth in India. Growth has fallen off at a time when growth in the global economy has been peaking up. **World Bank said** GST is one of the most complex with the second highest tax rate in the world among a sample of 115 countries which have a similar indirect tax system. **IMF too said** GST the multiple rate structure and other features could give rise to high compliance and administrative costs.

**GST has many drawbacks** which is not a good sign for aggregate supply, aggregate demand & GDP. Such drawbacks are as follows - Increased costs due to software purchase, Being GST-compliant, increase in operational costs, GST came into effect in the middle of the financial year and just after 8 months of demonetisation, SMEs will have a higher tax burden.

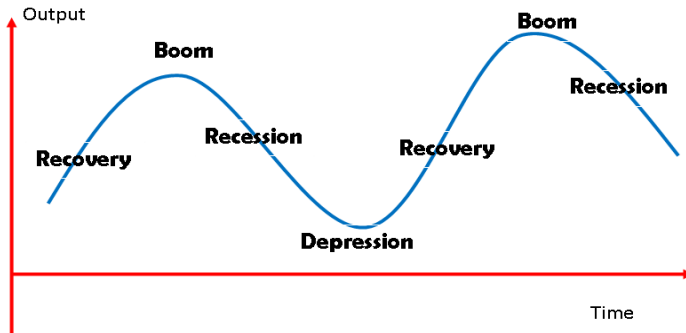
The theory of economics suggest us, A firm is unwilling to supply more goods and services at high rate of tax. GST rate such as 28%, 18% and 12% de-motivate the firms which cause short run aggregate supply curve SRAS1 shifted to the left to new supply curve SRAS2 and Price level increases to p2 which cause cost push inflation into the economy.



Due to reduction in supply employment level will decrease at the same time tax collection will also diminish which results low GDP, low economic growth and low level of standard of living. Due to job loss, chances of mortality rate and suicide, crime rates will also increase which again cause low level of happy life index. Due to demonetisation and GST India has not only faced Inflation but also deflation at the same time, A highest GST in the world leads to increase in price of goods and services which cause later low aggregate demand from AD1 to AD2 as a result price level decrease to P2, it is nothing but a deflation stage of the economy.



Demand for goods and services has drastically decreased and even Parle India, a food company suffered due to low demand for biscuits as Govt. has levied 18% GST on biscuits.



From aggregate demand to aggregate supply to unemployment and GDP growth, all are in Trauma. Indian economy is now under recession stage and if proper measures can't be taken, it may reach to depression due to Demonetisation and GST and mismanagement of fiscal and monetary policy (recently RBI handed over 1.76 lakh crore to central Govt. led by Mr. Modi). Demonetisation and GST has destroyed many industries of Indian economy and jobs and put Indian GDP growth rate to 4.5% (after changing the base rate) or else according to Economist Dr. Subramanian Swamy Indian growth rate would be around 2.5%.

Due to high rate of GST, production in many sectors has been reduced and prices are rising and demand is contracting. Resultantly, unemployment in many important industries such as automobile and its components sector occurred that led to loss of around 8-10 lakh jobs. In textile around 30 lakhs job losses, even Parle biscuit company may force its 10,000 employees to quit due to 18% of GST on biscuit and low demand for the biscuits. In 2018 there were around 1.1 crore job loss due to Demonetisation and GST.

Economic theories suggest low tax means low tax evasion and high tax means high tax evasion. Due to high GST, Government may be losing ₹5 trillion in indirect tax revenue a year which is equivalent to 2.4% of India's GDP, because of defaults and tax evasion. Here Firms try to evade

tax due to highest GST 28% or 18%. Indra Rajaraman, an economist and former member of the Thirteenth Finance Commission revealed that the low revenue from GST & economic slowdown small businesses have suffered in the GST regime. Many financial and non financial institutions put question mark on collection of revenue from GST. Following reports **published in various newspapers** regarding challenges and failures of GST implementations and its revenue collections.

### **GST fails its biggest promise of economy formalisation: HSBC**

Hong Kong and Shanghai Banking Corporation (HSBC) stated that "GST was originally associated with formality. But so far, it has not been able to live up to that promise nor has it brought down the demand for cash,"

### **India's GST collections below potential: IMF**

The International Monetary Fund (IMF) has stated that revenue collection from GST in India has been below potential. The multiple rates along with exemptions and implementation challenges have affected the GST collections in India.

### **GST has failed to live up to its full potential:**

#### **CAG**

Comptroller and Auditor General of India (CAG) said that matching invoice of buyers and sellers, an anti-evasion measure envisaged in the indirect tax regime, was still not in place. It further mentioned that one of the important areas where the full potential of GST roll out has not been achieved is the roll out of the simplified tax compliance regime.

### **Do centre accepted GST is a failure?**

Centre accepted that we don't have sufficient resources to compensate states for revenue shortfall on account of GST rollout. Many states are finding difficulty on GST compensation from centre. Punjab, Kerala and many states have expressed concern over delay in payment of GST compensation.

**After man made hammer** that is Demonetisation & GST on Indian economy, Natural hammer so call Corona a deadly virus has attacked the world economy including India too. Due the corona world and Indian economy are under shutting down. International agencies like world bank, IMF, Moody's etc projected India's GDP for 2020 is around 1.5% to 2.9%. If central Govt. would have taken care and would have maintained at least 7 to 8% GDP by not going ahead with demonetisation or GST then during corona epidemic also India's projected growth rate would have been around 3.5% to 4.5%.