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Impact of Goods and Service Tax (GST) on Indian Economy

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Abstract

Goods and Service Tax is defined as the powerful indirect tax structure designed to support and increase the economic growth of a country. Currently, there are 160 countries that have implemented GST so far. However the reform process of India's indirect tax regime was started in 1986 by Rajiv Gandhi's government, with the introduction of the Modified Value Added Tax (MODVAT).A single common "Goods and Service Tax (GST)" was proposed in 1999 by Atal Bihari Vajpayee and his economic advisory panel. Finally, it was introduce in India on 1 July 2017 and was applicable throughout the India which replaced multiple cascading taxes levied by the central and state governments. After a lot of discussion, our GST council has decided the rates for all the goods and major service categories under various tax slabs, and the GST is expected to fill the errors in the current system and accelerate the Indian economy. This is being done by unifying the indirect taxes for all states throughout India.

Before, introducing GST, companies and businesses pay lot of indirect taxes such as Sales tax, octroi, entertainment tax, VAT, luxury tax and service tax. Due to implementation of GST, all these taxes are discontinued. The tax rate under GST are set at 0%, 5%, 12%, 18% and 28% for various goods and services, and almost 50% of goods & services comes under 18% tax rate. But how is our life going to change post GST? Let's see how GST on some day-to-day good and services will have an impact on an end user's pocket.

Footwear & Apparels/Garments:

Footwear costing more than INR 500 will have a GST rate of 18% from an earlier rate of 14.41 rate but rates for the footwear below INR 500 has been reduced to 5%. So, you need to shell out more for buying a footwear above INR 500/-. And with respect to the ready-made garments, the rates have been reduced to 12% from an existing 18.16% which will make them cheaper.

Cab and Taxi rides:

Now, taking an Ola or an Uber will be cheaper because the tax rate has come down to 5% from an earlier 6% for a cab booking made online.

Airline tickets:

Under the GST, tax rate for economy class for flight tickets is set at 5% but the tax for business class tickets will have a higher tax rate of 12%.

Train Fare:

There will not be much of an impact. The effective tax rate has increased from 4.5% to 5% in GST. But, passengers who travels for business trips can claim Input Tax Credit on their rail ticket which can help them to reduce expenses. People travelling by local trains or in the sleeper class will not be affected, but first-class & AC travellers will have to pay more.

Movie Tickets:

Movies tickets costing below INR 100 will be charged a GST rate of 18% but prices above INR 100 will have a higher tax rate of 28%.

Life Insurance Premium:

The Premium Amounts on policies will rise, with an immediate impact can be seen on your term and endowment policy premiums as the rates have been increased under GST across life, health and general insurance.

Mutual funds Returns:

GST impact on your returns from mutual funds investments will largely be marginal as the GST will be charged on the TER i.e. Total Expense Ratio of a mutual fund. The TER is commonly called as expense ratio of a mutual fund company, and the same is set to go up by 3%. The return what you get as an investor will be reduced to that extent unless the respective mutual fund company i.e. AMC absorbs it but that anyhow will be a marginal difference.

Jewelry:

The gold investment will become slightly expensive because there will be 3% GST on gold & 5% on the making charges. The earlier tax rate on gold was around 2% in most of the states and the GST is increased from the existing rate to around 2% to 3%.

Buying a Property:

Under construction properties will be cheaper than read-to-move-in properties. The GST rate for an under-construction property is 18% but the effective rate on this kind of property will be around 12% due to input tax credits the builder will avail of.

Education & Medical Facilities:

Education and Medical sectors have been kept outside the GST ambit and both the primary education & healthcare is exempt from GST. It means a consumer will not pay any tax for the money you spent on these services. But due to increase in the rate of taxes for certain goods & services as procured by these organisations, they may pass on the additional tax burden to the consumers.

Hotel Stay:

For your hotel stay, If your room tariff is less than Rs 1,000, then there will be no GST, but anything above Rs 5,000 will attract 28% tax.

Buying a Car:

Most of the cars in the Indian market will become slightly cheaper, except for the hybrid cars because the GST rate will be 28% tax on all the vehicles irrespective of their make, engine capacity or model. However, over and above this 28%, an additional cess will be levied which can be either 1%, 3% or 15 %, depending on the particular car segment.

Mobile Bills:

People will have to pay more on mobile phone bills as GST on telecom services is now 18%, as opposed to the earlier tax rate of 15%. However, telecom companies may absorb this 3% rise due to fierce competition.

Restaurant Bills/EATING OUT:

Your restaurant bill would depend on whether you dined at an AC or Non-AC establishments which do not serve alcohol. Now dining at five-star hotels will be charged at 18% GST rate and the Non-AC restaurants will be charged 12% and a 5% GST will be charged from small hotels, dhabas and restaurants who do not cross an annual turnover of INR 50 Lakh.

IPL & other related events:

Events like IPL i.e. sporting events will have a 28% GST rate which is higher than the earlier 20%.rates. This will increase the price of your tickets. And the GST rate for other events like theatre, circus or Indian classical music shows or a folk dance performance or a drama show will be at 18% GST rate, this is lesser than the earlier tax rate.

DTH and cable services:

The money you pay towards your DTH (Direct-To-Home) connections or to your cable operator will reduce a bit as the rate is fixed at 18%, which is lower than the earlier taxes which were comprising of entertainment tax in the range of 10% to 30%, apart from the service tax of 15%.

Amusements Parks:

The ticket price for amusement parks and theme parks will increase as the earlier service tax of 15% will become 28% under the GST.

Here's is a list of some items which are completely exempt from the GST regime:

*The unprocessed cereals, rice & wheat etc.

*The unprocessed milk, vegetables (fresh), fish, meat, etc.

*Unbranded Atta, Besan or Maida.

*Kid's coloring book/drawing books.

*Sindoor/Bindis, bangles, etc.

Conclusion:

GST introduce One-Country-One-Tax regime. The GST regime is a wholehearted attempt to rationalize indirect tax structure. The 160 countries have implemented GST. No doubt, GST is simplify the indirect tax system and help to remove inefficiencies created by the old heterogeneous taxation system. It subsume all indirect taxes at the Centre and state level. GST not only widen the tax regime by covering goods and services but also make it transparent.