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# Impact Of GST On Different Sectors Of Indian Economy

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***Abstract:*** ***India has taken initiatives for the development of economy. Great ideas like digital India, GST, Demonetization and Make in India have been taken to make India an industrialized centre and to generate employment opportunities in various sectors. The hospitality industry, like every other sector in the Indian economy is one of the fastest growing sectors in India and is expected to grow at the rate of 8 % between 2007 and 2016. These initiatives have their own positive and negative effect. The boom in travel and tourism has led to the further development of hospitality industry. As a result the hospitality industry is growing globally and promoting its growth in a changing diversified environment. Hotels contribute the output of goods and related services which build well being of their nations and communities. Like every other sector in the Indian economy hospitality sector, was liable to pay multiple taxes (VAT, luxury tax, and service tax) under the previous VAT regime. This study is aimed to know the expected positive and negative impact of GST on hospitality industry.***

***Keywords: GST, Indian Economy***



## I. INTRODUCTION

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system.

On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%.

Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods. In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross utilization of credits. The current system taxes production, whereas the GST will aim to tax consumption.

## II. LITERATURE REVIEW

Rathod M(2017) in his paper “An Overview of Goods and Service Tax (Gst) In India” concludes that GST will be a step towards a developed India benefiting to many parties and entire nation.

Nitin Kumar (2014) mentioned in his research paper that implementation of GST will try to remove all the shortcomings of present tax structure in India in his research paper “Goods and Service Tax in India-A Way Forward”

Garg (2014) studied about the basic concepts and features of GST in India. He highlighted that GST would be a good indirect tax reform in our country because it would cover all

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goods & services and all sectors like industry, business including government sector and service sector. All big, small scale units, medium, intermediaries, importers, exporters, traders, professionals and consumers would be affected by GST. This uniform tax rate for centre and state would also likely to improve economic development by increasing tax collections. Through these exemptions have been minimized and equal tax will be borne by manufacturing and service sector.

Palil et.al (2011) studied about the impact of GST on middle income earners in Malaysia. T-test, ANOVA were used for analyzing data collected from consumers. It was found that consumers were thinking that prices of goods will be increased and negatively impact purchasing power. People did not know how GST would be implemented due to inadequate information so government should try to convince people that GST would not decrease their purchasing capacity if it would affect then government would reduce that affect by providing exemptions and reducing income tax rate.

Chadha et.al. (2008) studied about GST's impact on India's growth and international trade. By using general equilibrium model, some directional changes had been predicted in different variables like India's GDP would increase within range of 0.9 percent to 1.7 percent. In 2008-09, GST would increase exports between 3.2 to 6.3 percent and import value was expected to gain between 2.4 to 4.7 percent. GST would also help in efficient allocation of resources because of which real return in factor of production would increase by gains in land (0.42%-0.82%), wage rate (0.68%-1.33%) and capital (0.37%-0.74%) meant overall increase.

Lee studied about the effects of GST on Hong Kong and found out its impact on government revenue and different income groups. It was concluded that GST was not broad based and costly to introduce because of instability of revenue and limited additional revenue. Secondly, it was highlighted that GST was really unnecessary as the current tax system was already broad-based and it would increase income disparity by increasing extra burden on middle class due to regressive nature.

## III. RESEARCH METHODOLOGY

This study is descriptive in nature because here we have explained the probable impact of GST on different sectors. For this secondary data has been collected through different articles, research papers and reports published about GST. So this study highlights opportunities and challenges going to occur to different sectors due to GST.

### OBJECTIVES OF THE STUDY

- ✓ To obtain a comprehensive overview on GST, benefits and challenges of GST.
- ✓ To study the expected impact of GST on different sectors of Indian economy.

### A. EFFECT ON CONSUMER GOODS AND SERVICES

When it comes to consumer goods and services, the main concerns are food and the services sector. For these, the GST brings good and not so good news. The good news is that food products are charged 0%. The not so good news is that services in general are seeing an increase of 18% from 15%.

On the other hand, the implementation of GST increases the tax on footwear and garments priced at INR 500 from the previous 14.41% to 18% but those priced lower than INR 500 are taxed lower at 5%. For ready-made garments, the rates are lowered to 12% from 18.16%. Mobile services rates are slightly increased, though, because of the new 18% rate, from 15% before. When it comes to direct-to-home and cable services, the new fixed rate of 18% can be considered a general reduction as compared to the previous 10%-30% range and the additional service tax of 15%.

### B. EFFECT ON TRANSPORTATION

Under GST, cab and taxi rides are taxed lower, from 6% to 5%. For those who who travel by air, GST is favorable as the tax rate is lowered to 5% for the economy class and 12% for business class. Train fare, meanwhile, is mostly unaffected as the change is minimal, from 4.5% to 5%. Those who travel by sleeper are not affected by the tax rate change but those who travel first class are charged more.

### C. EFFECT ON THE ENTERTAINMENT AND HOSPITALITY INDUSTRIES

Amusement park rates increase with GST taking effect as the previous tax rate of 15% has been raised to 28%. Movie tickets are similarly increasing as they are categorized under the 28% rate. For hotels, no GST are to be charged for room rates priced lower than INR 1,000. However, room rates higher than INR 5,000 get a 28% tax rate. For 5-star hotel restaurants, the rate is 18% for those that serve alcohol and 12% for those that don't. Smaller hotels and restaurants are only charged 5% if their annual turnover does not exceed INR 50 Lakh.

### D. MAJOR PROPERTY OR ASSET ACQUISITIONS

GST reduces under-construction property costs as the tax rate is set at 18% but this can still be lowered to an effective rate of 12% as the property builder can avail of input tax credits. On the other hand, buying a car (most models) in India can become slightly less expensive as the tax rate is fixed at 28% with an additional cess of either 1%, 3%, or 15% depending on which segment the car being purchased belongs. In contrast, investing in jewelry can become slightly more expensive because of the 3% (from 2% in most states of India) rate on gold and the 5% charged on the crafting of the jewelry.

### E. EFFECTS ON FINANCIAL PRODUCTS AND SERVICES

Indians who buy insurance policies, unfortunately, are seeing increases in their premiums with the implementation of

GST as the tax rates have been raised for general, health, and life insurance. On the other hand, the tax rate change on mutual fund returns under GST is mostly minimal. This is because the GST is charged on the mutual fund's Total Expense Ratio (TER). The rate is only 3% so the effect is going to be marginal.

Since they belong to the service industry, banking services and the services provided by other financial service companies are subject to the 18% rate, which is higher than the previous 15%. Debit cards, fund transfers, ATM withdrawals, cheque book or draft issuance, bills collections, charges on cash handling, and more are affected. Even money sending services are affected. Companies that provide money transfer services, nevertheless, are expected to try to be competitive so it's worth observing how they change their rates. It's advisable to observe these changes on sites like Moneytransfercomparison.com to find out which ones are trying to be competitive and which ones are taking advantage of GST to justify higher than expected rate increases.

### F. EFFECT ON STARTUPS

The GST regime is believed to be good for the Indian startup sector as it carries with it tax credit on purchases, a simple compliance model, increased limits for registration, and the ability to promote the free flow of goods and services. It takes away the complication and confusion of the previous VAT laws, especially for those in the ecommerce industry. GST may stir inflation but there's the optimistic view that the undesirable effects will not last long, and will eventually be offset by the positive impact of an improving economy.

### G. EFFECT ON INFLATION

Given the sampling of effects mentioned earlier, it can be said that GST is mostly viewed as an inflationary measure. However, the Indian government believes otherwise. Hasmukh Adhia, Revenue Secretary, says that consumer price inflation with GST implemented will go down by 2% by the end of 2017. Naturally, not many are convinced by this claim. The fact that the tax rate on services has been raised to 18% from around 15% is already expected to raise inflation above levels experienced before the institution of GST.

MS Mani, a senior director of Deloitte, in an interview with Forbes India, said that the inflationary effect of GST will be temporary or short-term. This is because, according to Mani, the rates have been kept close to the existing excise duty and state tax rates. For Mani, the exemption (0% rate) of consumer products for the masses and the higher (28%) taxes on those consumed by the rich will keep inflation in check. This is expected to improve the flow of input credit with GST in place.

### H. EFFECT ON ECONOMIC ACTIVITY

It's difficult and too early to evaluate whether or not GST has positively affected economic activity. The Indian government, however, believes that they are on the right track with GST. At least one Indian business executive shares this optimistic view of GST. In a report by The Indian Express, ICICI Bank CEO Chanda Kochhar was quoted to have said that GST is a transformational structural reform which has multiple benefits. These benefits include the establishment of a national market, improved ease of doing business in India, better productivity and efficiency, and improved compliance among taxpayers.

The GST reform package is ambitious and is undoubtedly a major move for the $2 Trillion Indian economy. Its main selling point for the Indian economy is its supposed advantage of making it easier for businesses to do business. It provides a simplified taxation scheme for goods and services, something businessmen will appreciate. It's far from perfect, though, and it's definitely worth paying attention to non-political criticisms, especially in relation to how it affects poorer Indians.

GST's impact on the Indian economy can go either way: good or not so good. Fortunately, there aren't that many analysts who express damningly averse views on the matter. With honest and efficient administration, GST may be a good move for the world's third largest economy.

## IV. CONCLUSION

While comparing challenges with its advantages, it is clearly visible that its advantages are more compared to challenges. GST will give Indian economy a strong and smart tax system for economic development. But for gaining those benefits country will need to build strong mechanism. The objective GST is to replace VAT; GST will be solving all the complexities present in the current indirect tax system. It will be giving relief to various parties like consumers, producers and Government.

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