



## The Comparative Study on Impact of GST Implementation on Value of Indian Rupees

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### Abstract

*The year 2017 will forever be etched in Indian history as the year that saw the implementation of the biggest and most important economic reform since Independence - the Goods and Services Tax (GST). The reform that took more than a decade of intense debate was finally implemented with effect from 1 July 2017, subsuming almost all indirect taxes at the Central and State levels. GST, which was publicised as 'one nation, one tax' by the government, aims to provide a simplified, single tax regime in line with the tax framework applicable in several major economies across the Globe. This single tax has helped streamline various indirect taxes and brought in more efficiencies in business. GST law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. The implementation of the GST got overwhelming support from the industry. The industry took this as an opportunity to redefine supply-chain model, customise IT processes, and evaluate internal and external arrangements to safeguard interest and minimise their tax costs. Researcher tried an noble attempt to understand the its consequences on the value of Indian rupees*

**Keywords :** GST, Indian Rupees, USD

### Introduction

Goods and Services Tax (GST) is an indirect tax (or consumption tax) imposed in India on the supply of goods and services. It is a comprehensive multistage, destination based tax: comprehensive because it has subsumed almost all the indirect taxes except few; multi-staged as it is imposed at every step in the production process, but is meant to be refunded to all parties in the various stages of production other than the final consumer and as a destination based tax, as it is collected from point of consumption and not point of origin like previous taxes.

Goods and services are divided into five different tax slabs for collection of tax - 0%, 5%, 12%, 18% and 28%. However, petroleum products, alcoholic drinks, and electricity are not taxed under GST and instead are taxed separately by the individual state governments, as per the previous tax regime. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. Pre-GST, the statutory tax rate for most goods was about 26.5%, Post-GST, most goods are expected to be in the 18% tax range.

The tax will come into effect from July 1, 2020 through the implementation of One Hundred and First Amendment of the Constitution of India by the Indian government. The tax replaced existing multiple flowing taxes levied by the central and state governments.

The tax rates, rules and regulations are governed by the GST Council which consists of the finance ministers of centre and all the states. GST is meant to replace a slew of indirect taxes with a federated tax and is therefore expected to reshape the country's 2.4 trillion dollar economy, but not without criticism. Trucks' travel time in interstate movement dropped by 20%, because of no interstate check posts.

### Historical Credentials

The reform of India's indirect tax regime was started in 1986 by Vishwanath Pratap Singh, Finance Minister in Rajiv Gandhi's government, with the introduction of the Modified Value Added Tax (MODVAT). Subsequently, Prime Minister P V Narasimha Rao and his Finance Minister Manmohan Singh, initiated early discussions on a Value Added Tax (VAT) at the state level. A single common "Goods and Services Tax (GST)" was proposed and given a go-ahead in 1999 during a meeting between the Prime Minister Atal Bihari Vajpayee and his economic advisory panel, which included three former RBI governors IG Patel, Bimal Jalan and C Rangarajan. Vajpayee set up a committee headed by the Finance Minister of West Bengal, Asim Dasgupta to design a GST model

The Ravi Dasgupta committee which was also tasked with putting in place the back-end technology and logistics (later came to be known as the GST Network, or GSTN, in 2015). It later came out for rolling out a uniform taxation regime in the country. In 2002, the Vajpayee government formed a task force under Vijay Kelkar to recommend



tax reforms. In 2005, the Kelkar committee recommended rolling out GST as suggested by the 12th Finance Commission.

After the defeat of the BJP-led NDA government in the 2004 Lok Sabha election and the election of a Congress-led UPA government, the new Finance Minister P Chidambaram in February 2006 continued work on the same and proposed a GST rollout by 1 April 2010. However, in 2011, with the Trinamool Congress routing CPI(M) out of power in West Bengal, Asim Dasgupta resigned as the head of the GST committee. Dasgupta admitted in an interview that 80% of the task had been done.

In the 2014 Lok Sabha election, the Bharatiya Janata Party-led NDA government was elected into power. With the consequential dissolution of the 15th Lok Sabha, the GST Bill - approved by the standing committee for reintroduction - lapsed. Seven months after the formation of the then Modi government, the new Finance Minister Arun Jaitley introduced the GST Bill in the Lok Sabha, where the BJP had a majority. In February 2015, Jaitley set another deadline of 1 April 2017 to implement GST. In May 2016, the Lok Sabha passed the Constitution Amendment Bill, paving way for GST. However, the Opposition, led by the Congress, demanded that the GST Bill be again sent back for review to the Select Committee of the Rajya Sabha due to disagreements on several statements in the Bill relating to taxation. Finally in August 2016, the Amendment Bill was passed. Over the next 15 to 20 days, 18 states ratified the Constitution amendment Bill and the President Pranab Mukherjee gave his assent to it.

A 21-member selected committee was formed to look into the proposed GST laws. After GST Council approved the Central Goods and Services Tax Bill 2017 (The CGST Bill), the Integrated Goods and Services Tax Bill 2017 (The IGST Bill), the Union Territory Goods and Services Tax Bill 2017 (The UTGST Bill), the Goods and Services Tax (Compensation to the States) Bill 2017 (The Compensation Bill), these Bills were passed by the Lok Sabha on 29 March 2017. The Rajya Sabha passed these Bills on 6 April 2017 and were then enacted as Acts on 12 April 2017. Thereafter, State Legislatures of different States have passed respective State Goods and Services Tax Bills. After the enactment of various GST laws, Goods and Services Tax was launched all over India with effect from 1 July 2017. The Jammu and Kashmir state legislature passed its GST act on 7 July 2017, thereby ensuring that the entire nation is brought under a unified indirect taxation system. There was to be no GST on the sale and purchase of securities. That continues to be governed by Securities Transaction Tax (STT).

The GST was launched at midnight on 1 July 2017 by the President of India, and the Government of India. The launch was marked by a historic midnight (30 June - 1 July) session of both the houses of parliament convened at the Central Hall of the Parliament. Though the session was attended by high-profile guests from the business and the entertainment industry including Ratan Tata, it was boycotted by the opposition due to the predicted problems that it was bound to lead for the middle and lower class Indians. It is one of the few midnight sessions that have been held by the parliament - the others being the declaration of India's independence on 15 August 1947, and the silver and golden jubilees of that occasion. After its launch, the GST rates have been modified multiple times, the latest being on 22 December 2018, where a panel of federal and state finance ministers decided to revise GST rates on 28 goods and 53 services.

Members of the Congress boycotted the GST launch altogether. They were joined by members of the Trinamool Congress, Communist Parties of India and the DMK. The parties reported that they found virtually no difference between the GST and the existing taxation system, claiming that the government was trying to merely rebrand the current taxation system. They also argued that the GST would increase existing rates on common daily goods while reducing rates on luxury items, and affect many Indians adversely, especially the middle, lower middle and poorer income groups.

#### **Objectives of the Study**

1. To study the GST Implementation and value of Indian Rupees
2. To analyse the GST Implementation and its consequences on value of Indian Rupees

#### **Hypotheses of the Study**

$H_0$  - There is no significant difference between pre and post value of Indian Rupee of GST implementation

$H_1$  - There is significant difference between pre and post value of Indian Rupee of GST implementation

#### **Scope of the Study**

Most people believe taxes should be fair, conducive to economic prosperity, and enforceable, as well as simple. But even people who agree on these goals often disagree about the relative importance of each. As a result, policies usually represent a balance among competing goals, and simplicity often loses out to other priorities.

Politics compounds complexity. Interest groups-and thus politicians-support tax subsidies for particular activities.



And these targeted subsidies inevitably complicate the tax system by creating distinctions among taxpayers with different sources and uses of income.

India adopted a dual GST model, meaning that taxation is administered by both the Union and state governments. Transactions made within a single state are levied with Central GST (CGST) by the Central Government and State GST (SGST) by the State governments. For inter-state transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government. GST is a consumption-based tax/destination-based tax, therefore, taxes are paid to the state where the goods or services are consumed not the state in which they were produced. IGST complicates tax collection for State Governments by disabling them from collecting the tax owed to them directly from the Central Government. Under the previous system, a state would only have to deal with a single government in order to collect tax revenue

#### **Research Methodology of the Study**

As far as data is concerned, the data of INR to USD valuation preceding one year from the date of implementation of GST as well as succeeding one year of the same taken under consideration

The study is based on critical evaluation and analysis of basically secondary Data. The data is processed with the help of statistical tools like tabulations, grouping, percentages, averages, testing of hypothesis etc.

#### **Review of literature**

**GST In India: A Key Tax Reform by Monika Sehrawat in International Journal of Research - Granthaalayah, Vol.3 (Iss.12): December, 2015, ISSN- 2350-0530(O) ISSN- 2394-3629(P), Impact Factor: 2.035 (I2OR):** GST is one of the most crucial tax reforms in India which has been long pending. It was supposed to be implemented from April 2010, but due to political issues and conflicting interests of various stakeholders it is still pending. It is a comprehensive tax system that will subsume all indirect taxes of states and central governments and unified economy into a seamless national market. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. This paper presents an overview of GST concept, explains its features along with its timeline of implementation in India. The paper is more focused on advantages of GST and challenges faced by India in execution. The proposed GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. Currently, in India complicated indirect tax system is followed with imbrications of taxes imposed by union and states separately. GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST and SGST.

**Goods And Service Tax In India: A Swot Analysis by Seema Devi in International Journal of Research, Granthaalayah, Vol.4 (Iss.12): December, 2016, ISSN- 2350-0530(O), ISSN- 2394-3629(P):** Goods and Service Tax (GST) is a Value Added Tax (VAT), which hypothetically to be put into effect from April 2010, but because of conflicting interest of stakeholders and various political controversies it has been passed in both Houses of Parliament on Aug. 3, 2016. It alone indirect tax which influence the whole economy directly. It is aspiring as iron out wrinkles of current indirect taxes and has a far-reaching impact on GDP. India is a centralized constitutional economy. GST is applicable on all States and Union territories, known as CGST (Central Goods & Services Tax) and SGST (State Goods & Services Tax). The ill effects of cascading can be mitigated after tie up the central and states taxes in solitary tax. The economy is expected to pave the way of common national market as it will provide benefits to consumer by reducing overall tax burden of goods, which is currently estimated at 25% to 30%. Thus, introduction of Goods and Service Tax (GST) is a gigantic tax transform in contemporary ancient times. Ignorance of law is no excuse but is liable to panel provisions, hence why not start learning GST and avoid the cost of ignorance. We all need to know, whether GST is willingly or imposed. This paper describes a brief introduction of current indirect tax structure and GST in India. What are challenging factor in implementation and what can be the opportunities of GST in India.

#### **Limitations of the study**

1. Further variables could be added for the purposes of detail study.
2. The study is based on limited time period data.



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**Data Analysis**

Researcher collected the data of INR to USD valuation preceding one year from the date of implementation of GST as well as succeeding one year of the same.

**Testing of Hypothesis**

$H_0$  - There is no significant difference between pre and post value of Indian Rupee of GST implementation

$H_1$  - There is significant difference between pre and post value of Indian Rupee of GST implementation  
Mathematically

	<i>Pre GST Implementation Period</i>	<i>Post GST Implementation Period</i>
Mean	66.37	67.87
Variance	1.68	9.43
Observations	731	730
Hypothesized Mean Difference	0	
df	981	
t Stat	-11.70	
P(T<t) one-tail	5.2866E-30	
t Critical one-tail	1.65	
P(T<=t) two-tail	1.05732E-29	
t Critical two-tail	1.96	

\*Here level of significance is 0.05

Thus, our null hypothesis "There is no significant difference between pre and post value of Indian Rupee of GST implementation" is rejected. Alternatively we accept our alternative hypothesis "There is significant difference between pre and post value of Indian Rupee of GST implementation"

**Findings**

1. The most interesting factor came out of study, that the variation among value of Indian Rupee of post GST Implementation period is comparatively very large as that pre GST Implementation period
2. The more important issue is come out from this analysis in which there is an interesting results found is; there is need to verify whether any worth increment/change in tax collections due to GST

**Conclusion**

In the concern of Impact of GST Implementation on Value of Indian Rupees, there seems to negative impact on the value of Indian Rupees which is not indicating good sign for overall economy. The data is studied for two years period, then also, there is no signals of stability regarding the value of Indian Rupee. This research should be useful for basic indicator about studying the Indian economy status.

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