A Study on Impact of Goods and Service Tax on Indian Economy

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Abstract- Goods and Services Tax is the largest indirect tax reform of India. Goods and Services Tax is a single tax system on the contributor of goods and services. It is a destination-based tax. It has subsumed taxes like Central Excise Law, Service Tax Law, VAT, Entry Tax, Octroi, etc. Goods and Services Tax is a single tax on the purchase of goods and services, which can be equalized with the tax to be remunerated on the supply of goods and services. As an end result, this diminishes the overall expenditure, with the end

I. INTRODUCTION

Goods and Service Tax is the largest tax reform has established on the idea of “one nation, one market, and one tax” is finalized in India. The moment that the Union government was waiting for a decade has finally arrived. The single biggest indirect tax management has jerked into force, dismantling all the inter-state obstructions with admiration to trade. The Goods and Service Tax squashed with a single stroke, has converted India into an amalgamated market of 1.3 billion nationals. Primarily, the 2.4 trillion dollar economy is attempting to change itself by doing away with the internal tariff obstacles and subsuming Union, state and local taxes into a unified Goods and Service Tax. The thought of introducing Goods and Service Tax was first recommended by the then Union Finance Minister, P. Chidambaram in his Budget for 2006-07. The discussion on Goods and Service Tax took precise pronunciation with the introduction of the Constitutional Bill of 122nd Amendment, 2014. The Bill was passed by the Parliament on 8 August 2016. This was followed by the authorization of the Bill by more than fifteen states. On 12 April 2017, the Union Government passed four Goods and Service Tax bills are listed below.

a. Central Goods and Service Tax (CGST) Bill
b. Integrated Goods and Service Tax (IGST) Bill
c. Union Territory Goods and Service Tax (UTGST) Bill
d. The Goods and Services Tax (Compensation to States) Bill

In the Indian economy, the service sector contributes to over fifty five per cent. Separate taxation of goods and services is neither viable nor desirable. Goods and Services Tax in India has been launched to reduce the tax burden that’s on both companies and consumers. In the earlier system, there were multiple taxes added at each step of the supply chain, without taking credit for taxes paid at previous stages. As a result, the end cost of the product does not clearly show the actual cost of the product and how much tax was applied. The tax structure was multifaceted. Goods and Service Tax incorporated most of the taxes into one single tax, where the customers are benefited. This system provides Input Tax credit remunerated on the purchase of goods and services, which can be equalize with the tax to be remunerated on the supply of goods and services. As an end result, this diminishes the overall expenditure, with the end
purchaser paying less. In view of the above, the present study deliberates impact of Goods and Service Tax on Indian Economy.

II. REASON FOR IMPLEMENTING GOODS AND SERVICE TAX

Traditionally, India has relied exceeding on indirect taxation because of political pressures, an agrarian economy, low income levels and lack of infrastructure paved the way for personal income. In order to simplify and rationalize indirect tax structures, government of India cracked various tax policy transformations at different points of time. While Value Added Tax was a welcome change during the year 2005, over the times, people have identified shortcomings in the structure while levying Value Added Tax both at Central and State level. Also, Central Value Added Tax has the constraint of non-inclusion of several taxes such as Value Added Tax, surcharge etc. In the present state-level Value Added Tax scheme, there is a cascading effect on account of Central Value Added Tax element. Finally, there is lack of combination of Value Added Tax on goods with tax on services at the state level and hence the cascading effect of service tax.

To address multiple tax problems quoted above, a comprehensive tax reform (Goods and Service Tax is a part) having a widespread base to initiate the applicability of a well-organized and complemented consumption tax system has been recommended. While the lower house has cleared the passage of the bill, it’s still pending in the upper house. Goods and Service Tax has been generally accepted around the world and more than one hundred and forty countries have acknowledged the same which ranges between 15 to 20 per cent in most of the economies. Goods and Service Tax is a value added tax which will be levied on both goods and services (except for a list of exempted goods and services) together the national and state level (Union Government Goods and Service Tax and State specific government Goods and Service Tax respectively). This is going to be a single tax which will be levied on the manufactured goods or service which is being marketed. In fact, compound taxes like Central Value Added Tax, central sales tax, state sales tax, octroi etc., will be restored by Goods and Service Tax.

III. SHORT-TERM IMPACT OF GOODS AND SERVICE TAX

Goods and Service Tax, from the perspective of the consumer, they would now have paid more tax for most of the goods and services they consume. The majority of day by day consumables now draw the same or a slightly higher rate of tax. In addition to that, the Goods and Service Tax implementation has a cost of compliance attached to it. It appears that, this cost of observance will be prohibitive and sky-scraping for the small scale manufacturers and traders, who have also protested against the same. They may finish up pricing their commodities at upper rates.

IV. IMPACT OF GOODS AND SERVICE TAX ON INDIAN ECONOMY

As far as India is concerned, Goods and Service Tax is a game-changing reform for the Economy, as it will bring the net appropriate price of the goods and services. It is clear that, the various factors that have impacted Indian economy are:

a) Raising competitiveness among the Products

The retail price of the manufactured goods and services in India discloses that the total tax component is around 25-30 per cent of the cost of the product. After implementation of Goods and Service Tax, the prices have gone down, as the burden of paying taxes has been reduced to the final consumer of such goods and services. Hence, there is a possibility to increase production, hence, competition increases.

b) Bring out Simple Tax Structure

Estimation of taxes under Goods and Service Tax is simpler one. Instead of multiple taxation system under different stages of supply chain, Goods and Service Tax is a one single tax. This saves money and time.

c) Economic Union of India

There is autonomy of transportation of goods and services from one state to another after GST. Goods can be easily transported all over the country, which is an advantage to all businesses. In this regard, this encourages increase in production and for businesses to focus on PAN-India actions.

d) Homogeneous Tax system

Goods and Service Tax being a single tax, it has made it easier for the taxpayer to pay taxes uniformly. Previously, there used to be multiple taxes at every stage of supply chain, where the tax payer would get bamboozled, which a disadvantage.

e) Larger Tax incomes

A simpler tax composition can fetch about greater observance, this increases the number of tax payers and in turn the tax revenues collected for the government. By simplifying structures, Goods and Service Tax would support compliance, which is also anticipated to widen the tax base.

f) Amplify in Export Trade

There has been a plummet in the cost of production in the domestic market after the introduction of Goods and
Service Tax, which is a positive influence to increase the competitiveness towards the international market.

V. ADVANTAGES OF GOODS AND SERVICE TAX
i. Elimination of multiple taxation method.
ii. Elimination of cascading taxation effect, i.e. tax on tax.
iii. Enhance in the production of goods and services.
iv. Amplify in the demand and supply of goods and services.
v. Due to lower burden of taxes, there is a reduction in overall costs.
vi. Burden has been decreased on the final tax payer, i.e. Consumer at the end.
vii. Control over the circulation of black money as the system normally followed by merchants and salespersons will be put to a compulsory check. Revenue of the government increased by enlarged tax base.

VI. DISPUTES OF GOODS AND SERVICE TAX
i. Impact on pricing of goods and services due to subsumed taxes.
ii. To keep a check on the rates of Goods and Service Tax. If the rates of Goods and Service Tax are over fifteen per cent, then the goods would be costlier.
iii. There are still a few states in India which lack Information Technology Infrastructure.
iv. A separate regulation must be drafted.
v. Transfer of goods from one state to other all over the country. Continuation of specific exclusions on central Goods and Service Tax and state Goods and Service Tax.
vi. Constitutional amendments to enable Goods and Service Tax to central and state governments.
vii. Constitutional modifications to enable impose of Goods and Service Tax on imports.

VII. CONCLUSION
The successful implementation of Goods and Service Tax will depend on its horizontal route in the states, and the pattern of a Goods and Service Tax council that drives agreement on rates, exclusion lists, applicability boundaries, principles of supply, special provisions to certain states, and a host of other rules and regulations. Even the time selected for execution will matter a lot when it draw closer to mystification and litigations. Whatever be the implementation hassles and timeframe, the fact remains Goods and Service Tax is a big step towards making India a unified market. The subsuming of major Central and State taxes in Goods and Service Tax, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) will not only diminish the cost of locally manufactured goods and services, but will also raise the competitiveness of Indian goods and services in the international market and give enhance to Indian exports.

In this context, our computation is more good than awful.

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