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

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Abstract— In India, the idea of GST was contemplated in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003, named Kelkar Committee. The Kelkar Committee was convinced that a dual GST system shall be able to tax almost all the goods and services and the Indian economy shall be able to have wider market of tax base, improve revenue collection through levying and collection of indirect tax and more pragmatic approach of efficient resource allocation. Under the Goods and Service Tax mechanism, every person is be liable to pay tax on output and shall be entitled to enjoy credit on input tax paid and tax shall be only on the amount of value added. The historic GST or goods and services tax has become a reality. The new tax system was launched at a function in Central Hall of Parliament on 1st July, 2017 (Friday midnight). For corporate, the elimination of multiple taxes will improve the ease of doing business. And for consumers, the biggest advantage would be in terms of a reduction in the overall tax burden on goods. "Inflation will come down, tax avoidance will be difficult, India's GDP will be benefitted and extra resources will be used for welfare of poor and weaker section," Finance Minister Arun Jaitley said at GST launch event in Parliament. The Lok Sabha has finally passed the Goods and Services Tax Bill and it is expected to have a significant impact on every industry and every consumer. Apart from filling the loopholes of the current system, it is also aimed at boosting the Indian economy. This will be done by simplifying and unifying the indirect taxes for all states throughout India. therefore, this paper attempt to the Goods and Service Tax (GST) and its impact on Indian economy.

Keywords— Corporate, GST, GDP, Industry, Consumer, Service

I. INTRODUCTION

The word tax is derived from the Latin word “taxare” meaning “to estimate”. “A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority and is any contribution imposed by government whether under the name of levy, tribute, impost, duty, custom, excise, subsidy, supply, or other.” The first known system of taxation was in Ancient Egypt around 3000 BC - 2800 BC in the first empire of the Old Kingdom. Records from that time showed that the pharaohs were collecting tax revenues from the people. The period of British rule in India witnessed some remarkable change in the whole taxation system of India. Although, it was highly in favor of the British government and its exchequer but it incorporated modern and scientific method of taxation tools and systems. In 1922, the country witnessed a paradigm shift in the overall Indian taxation system. Setting up of administrative system and taxation system was first done by the Britshers. Broadly, there are two types of Taxes viz. Direct and Indirect taxes. Taxes in India are levied by the Central Government and the State Governments. Other minor taxes are also levied by the local authorities such as Municipality or Local Council or Grampanchayat. In India various taxes are levied by the Central Government body and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. There are various levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State.

II. LITERATURE REVIEW

Ehtisham Ahmed and Satya Poddar (2009) have study on “Goods and Service Tax Reforms and Intergovernmental Consideration in India” found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. however the benefits of GST are depend on the rationally designed GST.

R. Vasanthagopal (2011) in his research paper “ GST in India: A Big Leap in the Indirect Taxation System” concludes that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy.

Syed Mohd Ali Taqvi (2013) “Challenges and Opportunities of Goods and Service Tax in India” the researcher explains the GST is only indirect tax that directly affect all sectors and sections of our country. It is aiming at creating a single, unified market that will benefit both corporate and economy. He also explains the proposed GST model will be implemented parallel by the central and state governments as Central GST and State GST respectively.

Nishitha Guptha (2014) in her study stated that implementation of GST in the Indian framework will lead to commercial benefits which were un touched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government.

Pinki, Supriya Kamma and Richa Verma (2014) in their paper titled “Goods and Service Tax- Panacea For Indirect Tax System in India” concluded that the new government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.
III. OBJECTIVES OF THE STUDY
1. To study the Positive impact on Indian Economy
2. To study the Negative impact on Indian Economy

IV. METHODOLOGY

The study is descriptive and exploratory considering the objectives of the study. The data collected are secondary source of data like Journals, Newspapers and Government Reports.

1) The Positive Impact on Indian Economy

Increases competitiveness

The retail price of the manufactured goods and services in India reveals that the total tax component is around 25-30% of the cost of the product. After implementation of GST, the prices have gone down, as the burden of paying taxes has been reduced to the final consumer of such goods and services. There is a scope to increase production, hence, competition increases.

Simple Tax Structure

Calculation of taxes under GST is simpler. Instead of multiple taxation under different stages of supply chain, GST is a one single tax. This saves money and time.

Economic Union of India

There is freedom of transportation of goods and services from one state to another after GST. Goods can be easily transported all over the country, which is a benefit to all businesses. This encourages increase in production and for businesses to focus on PAN-India operations.

Uniform Tax Regime

GST 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 taxpayer would get confused, which a disadvantage.

Greater Tax Revenues

A simpler tax structure can bring about greater compliance, this increases the number of tax payers and in turn the tax revenues collected for the government. By simplifying structures, GST would encourage compliance, which is also expected to widen the tax base.

Increase in Exports

There has been a fall in the cost of production in the domestic market after the introduction of GST, which is a positive influence to increase the competitiveness towards the international market.

Reduction in prices

Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is a very big reason to say that we can see a reduction in prices. However, if the government seeks to introduce GST with a higher rate, this might be lost.

Increase in Government Revenues

His might seem to be a little vague. However, even at the time of introduction of VAT, the public revenues actually went up instead of falling because many people resorted to paying taxes rather than evading the same. However, the government may wish to introduce GST at a Revenue Neutral Rate, in which case the revenues might not see a significant increase in the short run.

Less compliance and procedural cost

Instead of maintaining big records, return and reporting under various different statutes, all assesses will find comfortable under GST as the compliance cost will be reduced. It should be noted that the assesses are, nevertheless, required to keep record of CGST, SGST and IGST separately.

Move towards a Unified GST

Internationally, the GST is always preferred in a unified form (that is, one single GST for the whole nation, instead of the dual GST format). Although India is adopting Dual GST looking into the federal structure, it is still a good move towards a Unified GST which is regarded as the best method of Indirect Taxes. The following are the some more salient features of the proposed pan-India Goods and Services Tax regime that was approved by the Lok Sabha by way of an amendment to the Constitution.

Eliminates the multiplicity of taxation

One of the great advantages that a taxpayer can expect from GST is elimination of multiplicity of taxation. The reduction in the number of taxation applicable in a chain of transaction will help to reduce the paper work and clean up the current mess that is brought by existing indirect taxation laws.

One Point Single Tax

Another feature that GST will hold is it will be ‘one point single taxation’. This also gives a lot of comforts and confidence to business community that they would focus on business rather than worrying about their taxation that may crop at later stages. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the consumers being goods competitive as price will no longer be the function of tax components but function of sheer business intelligence and innovation.

Reduces average tax burdens

Under GST mechanism, the cost of tax that consumers have to bear will be certain and it is expected that GST would reduce the average tax burdens on the consumers.

Reduces the corruption

It is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there
exists a political will to root it out. This will be a step towards corruption free Indian Revenue Services.

2) The Negative Impact on Indian Economy

- Majority of dealers are not covered with the central excise but are only paying VAT in the state. Now all the VAT dealers will be required to pay Central Goods and Services Tax (CGST).
- GST is referred as single taxation system in India but in reality it is a dual tax in which both state and centre collects separate tax on single transaction of sale & service. However GST has some negative aspect but at the end it will boost economy.
- GST would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
- Service tax litigations have risen substantially in recent years and that maybe because of the absence of a pan-India Goods and Services Tax (GST) regime that can potentially remove several ambiguities around indirect taxation, experts maintain.

V. CONCLUSION

There are many countries where GST has already been implemented. Some of Implementation of GST impacts a nation both ways, positively and negatively. Ignoring negative aspects, positive aspects can be taken into consideration, in order to improve the economy of the country. In order to measure the Impact the GST we need to wait for the time and the Government needs to communicate more and more about the systems. It could be a good way to reduce the black money.

REFERENCE