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A conceptual study of impact of GST on Indian Economy

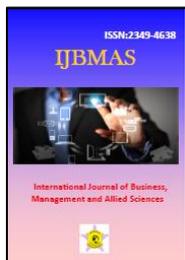
Prof. BIMAL JAISWAL¹, Dr. SHIVA MANOJ², Dr. LEENA S. SHIMPI³

¹Department of Applied Economics, University of Lucknow, Lucknow,
Uttar Pradesh, India. Email: bimalsiyaram@gmail.com Mob: 09453033262

²Assistant Professor, Lal Bahadur Shastri Group of Institutions, Lucknow, India
Email: shiva.german@yahoo.co.in Mob: 07860939440

³Assistant Professor, Department of Social Science & Commerce, Babasaheb Bhimrao
Ambedkar University

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ABSTRACT

The research paper focuses on the economic consequences of Goods and Services Tax (GST) personified newly in the Indian Tax structure. With India inching towards a GST regime, a set of key expectations surrounds economic development, growth in international trade, moderate taxes, and stability in prices. The research has been undertaken to gain an in-depth understanding of GST taxation system and to study impact of Goods and Service Tax (GST) on Indian Economy. This paper is a descriptive paper based on secondary data collected from different books, news-paper articles and research journals. The proposed GST in India consists of a consumption-type VAT, in which only final consumption is treated as the final use of a good. GST is expected to integrate taxes on goods and services across the supply chain, allowing for offsets and capture of value addition at each stage.

INTRODUCTION

The Goods and Services Tax (GST), implemented on July 1, 2017, is regarded as a major taxation reform till date implemented in India since independence in 1947. "GST was planned to be implemented in April 2010, but was postponed due to political issues and conflicting interest of stakeholders. The primary objective behind development of GST is to subsume all sorts of indirect taxes in India like Central Excise Tax, VAT/Sales Tax, Service tax, etc. and implement one taxation system in India. The GST based taxation system brings more transparency in taxation system and increases GDP rate from 1% to 2% and reduces tax theft and corruption in country. 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%.

The global spread of VAT/GST reinforces the success of the VAT/GST system of indirect taxation over any other form of tax. With India inching towards a GST regime, a set of key expectations surrounds economic development, growth in international trade, moderate taxes, and stability in prices. Taxpayers hope for the new tax structure to be simple and uniform, clear and transparent, making compliance easier through administrative improvements and the creation of simpler and faster mechanisms for redressing grievances.

LITERATURE REVIEW

The GST will fuel inflation for the short term. The GST rate starts at 5% and 18% taxation services such as hotels; movies etc. are bound to increase prices. Another problem with the GST that many pundits feel is not including liquor and petroleum under GST's ambit. These are major revenue sources for the government and experts feel this is being done due to a few crony capitalists who need some time to funnel away their black money as the GST promises to widen the tax paying population. (Harshal Katre)

Ehtisham Ahmed and SatyaPoddar (2009) studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Dr. R. Vasanthagopal (2011) studied, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Nitin Kumar (2014) studied, "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Pinki, SupriyaKamma and RichaVerma (July 2014) studied, "Goods and Service Tax- Panacea For Indirect Tax System in India" and concluded that the new NDA 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.

In India, GST is imposed on goods and services income. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. It is believed that GST would put India's indirect tax structure at par with more than 140 countries and would be productive for all the sectors. Implementation of such reforms does face surmountable challenges; however this is expected to bring in benefits in the form of higher GDP and also transparency in the tax system." The GST would be imposed on the "value - addition and thus would leave lesser scope for tax evasion. (Amutha ; 2018)

OBJECTIVES

The research has been undertaken and presented considering the following foremost objectives:

1. To gain an in-depth understanding of GST taxation system.
2. To study impact of Goods and Service Tax (GST) on Indian Economy

ANALYSIS

Impact of GST on the Indian Economy : Advantages and Challenges of GST Implementation

Impact of GST on the Indian Economy:

The biggest benefit of GST is an elimination of multiple indirect taxes. All taxes that currently exist will not be in picture. This means current taxes like excise, octroi, sales tax, CENVAT, Service tax, turnover tax etc will not be applicable and all that will fall under common tax called as GST. For a common man, GST applicability means the elimination of double charging in the system. This will reduce the price of goods and services & help common man for saving more money. It is expected that price of FMCG products, small cars, cinema tickets, electrical wires etc is expected to reduce. For a businessman, GST will be a boon. No multiple taxes means compliance and documentation will be easy. Return filing, tax payment, and refund process will be easy and hassle free. GST will be applicable at all stages from manufacturing to consumption. GST will provide tax credit benefit at every stage in chain. Today at every stage margin is added and tax is paid on whole amount, in GST you will have tax credit benefit and tax will be paid on margin amount only. It will reduce cascading effect of tax thereby reducing cost of product.

Positive Impact of GST in India:

1. GST is a single taxation system that will reduce the number of indirect taxes. From now, a single taxation term would cover all of those indirect taxes.
2. The prices of products and services would reduce, thus this system would prove to be beneficial for the people who are fed up of paying high prices.
3. This would reduce the burden from the state and the central government. With the introduction of GST, all indirect taxes would come under a single roof.
4. GST would not be charged at every point of sale like other indirect taxes so in this way, market would be developed.
5. Corruption-free taxation system. GST would introduce corruption-free taxation system.
6. Less tax compliance.

Negative Impact of GST in India:

1. The introduction of GST in the country will impact real estate market. This would increase new home buying price by 8% and reduce buyers' market by 12%.
2. GST is a mystifying term where double tax is charged in the name of a single tax.
3. Most of the dealers don't pay central excise tax and cheat the government by simply giving the VAT. But all of those dealers would now be forced to pay GST.
4. The short-term impact of GST is expected to be neutral-to negative for the broader economy.
5. Production processes are likely to take some time to align with the new framework as firms adjust to the input tax credit system and better manage working capital requirements.
6. For consumers, it will be a mixed bag as some goods become cheaper while others will be expensive.
7. Services will become expensive e.g. Telecom, banking, airline etc.
8. Being a new tax, it will take some time for the people to understand its implications.
9. It is easier said than done. There are always some complications attached. It is a consumption based tax, so in case of services the place where service is provided needs to be determined.
10. If actual benefit is not passed to consumer and seller increases his profit margin, the prices of goods can also see a rising trend.

This paper is based on exploratory research technique and data cited in this paper were collected via secondary sources available

CONCLUSION

The proposed GST in India consists of a consumption-type VAT, in which only final consumption is treated as the final use of a good. GST is expected to integrate taxes on goods and services across the supply chain, allowing for offsets and capture of value addition at each stage. A continuous chain of offsets is expected to be established, from the level of the original producer or service provider to the retailer's level, which would eliminate the burden of all cascading (or "tax on a tax") effects. Suppliers at each stage would be permitted to set off the GST paid on the purchase of input goods and services against their GST obligations to be paid on the supply of goods and services.

GST has the potential to boost India's GDP by as much as 2 per cent and has been considered an unprecedented reform in the history of modern global tax. Taxpayers will not have the burden of multiple compliances under various states. With the GST tax structure, there will be a single registration and single return. This will help build and expand upon the Make in India initiative by the Government of India by attracting FDI and reducing costs. Hence, these costs are manufacturing costs in the form of reduced compliance cost and taxes.

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