



IMPACT OF GOODS AND SERVICE TAX ON INDIAN ECONOMY AFTER IT'S IMPLEMENTATION

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Abstract—

Tax – Refers to compulsory monetary contribution to the Government, charged as per legislative authority on the activity's expenditure, income, property, etc. of individual and organization Taxes are major sources of revenues for the government. There are two types of Tax.

- Direct Tax
- Indirect Tax

Direct taxes are taxes where liability to pay the tax to Government and burden of payment lies on the same person, it is progressive in nature – higher income, higher tax. While indirect taxes are taxes where liability to pay the Government lies on one person but the same is recovered from another person, it is regressive in nature -same tax is charged from everyone irrespective of level of income. Indirect taxation in India has witnessed a significant shift on 01 July, 2017 with introduction of a unified indirect tax regime wherein many central and state indirect taxes have been amalgamated into a single tax – Goods and Services Tax (GST). The Introduction of GST is a very remarkable step in field of indirect tax reforms in India. This paper emphasis on impact of GST on Indian economy after its implementation.

I. INTRODUCTION

France was the first country to implement GST in 1960 to reduce tax evasion. Since then, over 160 countries have implemented GST around the world according to their legislature. India has adopted dual GST model in which Centre will levy and administer CGST and IGST while respective states/ Union Territories will levy and administer SGST/UTGST. GST is based on Vat system under which tax paid on input/input service and goods are allowed as credit for payment of tax on output supply. GST is a destination – based consumption tax, under GST taxable event is Supply of goods or services or both. The prime reason GST is implemented is to remove cascading taxation. It reduces the complications caused by the overlap between Central taxes (Excise duty, customs duty, service tax, etc.) and State taxes (VAT, purchase tax, luxury tax, etc.), because it levies a uniform tax on goods and services all over India. The taxes on goods and services levied under VAT, purchase tax, and luxury tax will now be merged into one single tax with one common return.

- a) CGST: GST to be levied and collected by the Central Governments on intra-state supplies of taxable goods / services.
- b) SGST: GST to be levied and collected by the state Governments on intra-state supplies of taxable goods / services.
- c) UTGST: GST to be levied and collected by the union territories on intra-state supplies of taxable goods / services.
- d) IGST: GST to be levied and collected by the Central Governments on inter-state supplies of taxable goods / services.

II. THE INDIAN TAXATION SYSTEM - SCENARIO BEFORE GST

Tax policies play a vital role in any country's progress and have a direct impact on any country's economy in terms of efficiency and equity. A good taxation policy is that which takes care of the entire income distribution and generates tax revenues in such a manner for Central and State Governments, which can lead to overall benefit in the nation's infrastructure, defense, public amenities, people's security, and a country's exports. The entire framework to impose indirect taxes comes under Constitutional provisions of India. Article 246, Seventh Schedule gives the right to Central and State Governments to levy taxes and collect indirect taxes based on goods and services transactions. The taxation system varies from manufacturer to manufacturer on point of sale or level of imports or exports. Indirect taxation-based collection systems are based on origin, and are designed to impose tax and collect the same at the event of happening of any taxable activity.

| Central | State |
|----------------------------|------------------------------------|
| Central Excise Duty | VAT/ Sales Tax |
| Service Tax | Entry Tax |
| Counter veiling Duty | Tax on lottery, betting & gambling |
| Central Sales Tax | Luxury Tax |
| Central Surcharge & Cesses | Taxes on advertisement |

III. REVIEW OF LITERATURE

Pegu, Bin his study, “The Proposed GST (Goods and Services Tax) and Indian Economy” prescribed that GST will impact on consumer in term of fluctuation rate on product. This is single tax base concept.

Kulkarni, S., & Apsingekar, S. (2021). In his study “A Study of Impact of GST on Indian Economy with Reference to Pune Region” opened that GST will be benefited to B2B cases where input tax credit available. GST is Boom to Indian economy. Simplification in compliance also will be other facet in GST law.

Kelkar, V. (2009, July 01). A tax for economic growth. Retrieved from <http://www.livemint.com/Opinion/S0hlNhimkhl9OhAiYwnbYJ/A-tax-foreconomic-growth.html>

World Bank (2018) and all other research study on “GST in India” concluded that the Indian GST system is among the most complicated ones in the world, with its high tax rates and a larger number of tax rates and negative impact on its economy.

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 too 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”

Monika Sehrawat and Upasana Dhanda (2015) in “GST in India: A key tax reform” concluded that introduction of GST will undoubtedly boost the Indian economy but focus should be given on rational design of GST model and timely implementation.

IV. RESEARCH METHODOLOGY

Research Design: This is descriptive and exploratory study. Data collection from secondary sources. Study focusses on impact of GST on Indian economy with reference to pre-GST and post GST regime. Secondary data collected from paper publication, books, website, newspaper, and thesis. Study brought out broad concept of collection of GST under GST taxable event is Supply of goods or services or both.

V. OBJECTIVES

1. Comparison between pre and post GST regime.
2. To find out the effect of change in collection of indirect taxes after GST
3. To find out the effect on the economic development due to change in revenue after GST implementation.
4. Understanding the features, working, and differentiating the old taxation system v/s GST in India.

VI. HYPOTHESIS

1. There is no significant relation between pre and post regime of GST.
2. There is no significant change in pre and post collection of tax after GST.
3. There is no significant difference between economic development and revenue from GST.

VII. GST Council (GST Council, 2017)

In order to implement GST taxation effectively in India, the Constitutional and (122 Amendment Bill) was introduced and passed by Rajya Sabha on August 3, 2016 and by Lok Sabha on August 8, 2016. The GST council was framed officially on September 8, 2016 after clearance from the Honorable President of India.

GST Models:

Considering the importance of taxation reforms and other countries'-based GST implementations, the following are the various GST models that are designed and proposed by experts for successful implementation of GST.

- (i) The Kelkar - Shah Model
- (ii) The Bagchi - Poddar Model
- (iii) The Australian Model
- (iv) The Canadian Model

Goods and Services Tax (GST) – Current Scenario

As per the reports of Task Force on Goods and Services Tax (2009), the Indian taxation system led to misallocation of resources and lower productivity in terms of economic growth, international trade, and overall development of the Indian economy. Therefore, there was an emergent need to replace the existing tax system with a new engine of taxation of goods and services to attain the following objectives (Roychowdhury, 2012):

- The tax incidence fell primarily on domestic consumption.
- The optimization of efficiency and equity of the Indian system is desired
- There should be no export of taxes across the taxing jurisdiction.

- The Indian market should be brought under a single umbrella of common market. Enhancement to the cause of cooperative federalism.

Apart from the above listed objectives, Kelkar (2009) summarized the overall advantages of implementation of GST in India as follows:

It will bring about a phase change on the tax firmament by redistributing the burden of taxation equitably between manufacturing and services. It will lower the tax rate by broadening the tax base and minimizing expectations. It will reduce distortions... [and] foster a common market across the country and reduce compliance costs. It will promote exports.

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

GST will impact the overall taxation system of the Indian economy. It will improvise the country's GDP ratio and control inflation to a certain extent. However, the reform will mainly be advantageous to the manufacturing industry, but will make some things challenging for the service sector industry. GST is expected to raise the GDP growth from 1% to 2%, but these figures can only be analyzed after successful implementation. Some countries have faced a mixed response in growth like New Zealand saw a higher GDP as compared to countries like China, Thailand, Australia, and Canada (Shokeen, Banwari, & Singh, 2017). The GST rate is implemented in various slabs like (Exempted, Nil Rated, 3% 5%, 12%, 18%, and 28%,) which will automatically provide great tax increments to the government and the manufacturing sector will face immense growth with reduction in tax rate. There is something good for everyone. Various unorganized sectors which enjoy the cost advantage equal to tax rate which will be brought under GST. This will make various sectors like Hardware, Paint, Electronics etc. under the tax slab. GST requires everything to be planned meticulously for organized rate of taxation. There are still lots of sectors which are to be discussed under GST and this requires proper planning.

VIII. CONCLUSION

Primarily, the concept of GST was introduced and proposed in India a few years back, but implementation has been done by the current BJP government under the able leadership of Prime Minister Shri Narendra Modi on July 1, 2017. The new government was in strong Favor for the implementation of GST in India by seeing many positive implications as discussed above in the paper. All sectors in India - manufacturing, service, telecom, automobile, and small SMEs will bear the impact of GST. One of the biggest taxation reform- GST will bind the entire nation under a single taxation system rate. As forecasted by experts, GST will improvise tax collections and boost up India's economic development and break all tax barriers between Central and State Governments. No doubt, GST will give India a clear and Transparent taxation system, but it is also surrounded by various challenges.

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