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Research Article

# GOODS AND SERVICE TAX: IMPACT ON INDIAN ECONOMY

**Deepika T ***

Saveetha School of Law, Saveetha University, Chennai

A R T I C L E I N F O

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A B S T R A C T

Goods and service is extremely comprehensive tax structure when implemented at the national level. It is one of the significant phases towards the development of the country. It is one of the biggest tax revolutions which is all set to integrate the state and national economy to boost the wholesome growth of the country. Presently companies and businesses pay multiple taxes which enhance the cost of product and also hamper the profit level of the company. Multiple tax and complex taxation system is one of the biggest barriers for economic growth of the country. Once the GST system is applied there would be single tax system which would record a major development in comprehensive indirect taxation reform. Under the GST system there would be only on rate relevant for both goods and services. GST will create a business friendly environment, as prices will fall and it would also influence the inflation rates.



## INTRODUCTION

Taxation plays a very essential in economic development of country. With much awaited GST system and in-depth analysis, here we are with last GST bill passed by the parliament because taxes are only means for financing the public goods because they cannot be suitably priced in the market. And government is only the source of funding via the taxation methods. As taxes are the drivers of the economy. Tax regimes should be designed in such a manner that is does not become the source of falsification in the market or result in failure of market. Raising a sufficient amount of revenue is main goal of tax law in efficient, effective and equitable manner. Tax policies are significant contributor to the economy in both the cases efficiency and equity. Good tax system should keep in view the issues of income distribution and also focused on strategies to generate tax revenues to supplement government expenditures on public services and infrastructural development. Domestic trade tax is levied in the form of a value added tax on all goods and services, in practice with some exemptions. VAT exempts all inputs together with capital goods. Moreover it is general tax is on domestic utilization. Basically there is need to alter the taxation pattern, as double taxation system does not motivates the consumer from consumption of products. It also influences spending pattern of public. Development of the economy depends on the purchasing power of the State. GST is suitable and economically efficient way of taxing the consumption. Basically there are very little exemptions because it has single rate and it becomes a proportional tax on consumption. One level of tax is effective way of collection, because it either goes to the state or central level. Multiple level of tax is distortion in case of objective of tax collection. Tax should go to the state in which the interested consumer lives. This will inevitably take place if tax is levied at the central level or state is in unitary level with the one and only level of tax collection. If GST has to be executed at central level i.e. in one level, it has to face many challenges at central level

**Corresponding author:* **Deepika T**
Saveetha School of Law, Saveetha University, Chennai

### *Concept of Goods and Service Tax*

GST or Goods and Services Tax is appropriate on supply of goods and services. It will swap the current taxes of excise, VAT and service tax. There were different VAT laws in different states. This creates problems, especially when businesses sell to various states. Also, most businesses have to pay and comply with three different taxes – excise, VAT, and service tax. GST will bring uniform taxation across the country and permit full tax credit from the procurement of inputs and capital goods which can later be set off against GST output liability. This reform gives equal balance to the big enterprises as well as SMEs. The aim of GST is thus to simplify tax obstacles for the entire economy. GST will be paid by all manufacturers and sellers and also be paid by service providers such as telecom providers, consultants, chartered accountants etc. However, being an indirect tax, GST will be ultimately borne by the end consumers, just like in the then process

### *Evolution of GST in India*

India is one of the most recent growing economies to adopt GST. It also featured to adopt the VAT as well. The Southeast Asian economies adopted consumption taxes like the VAT, or the GST which is based on value addition way back in the 1980s and 1990s.Laos, one of the least developed countries

(LDCs) from the region implemented VAT from 2009, four years after India did the same. Malaysia was an remarkable exception which introduced a GST of 6 per cent only from April 1, 2015. In South Asia, Bangladesh, Sri Lanka, Pakistan and Nepal had VAT executed from the 1990s, latest by early-2000s. The key to an effective GST is that it has to enhance production successfully. Most countries, while imposing VAT, were not able to entirely eliminate regressive nature of indirect taxes. A comparison of the different rates of GST over few countries is as under, Scandinavian countries have standard rate of 25 per cent, which holds the world's 1st place and it is followed by Uruguay and Argentina from the Latin American region with rates of 22 per cent and 21 per cent respectively. The alleged Indian revenue neutral rate of 17 percent, will be considered above the averages in Asia. Southeast Asia has an average rate amounting to 7.7 per cent. Indirect taxes in India have established to be better suited as they have much wider coverage as compared to direct taxes. Excise duty has been major source of income. The source of excise duty has tremendously increased due to the introduction of new commodities from year to year. A beginning regarding adoption of VAT in India was made in 1986 when MODVAT was introduced Professor Raja J Chellaih chairman –national Institute of public Finance and policy called in Tax Reforms committee. The committee recommended VAT (value added Tax) for rationalising the tax structure. During the period 1992-97, the excise duty structure was modified to progressively reduce the high rates of duties on several commodities. While there were concerted efforts to rationalize the rate structure, the fact remains that system with multitude taxes both by centre and state have only weakened the capacity to generate buoyant revenues, created revenue leakages and collusion and corruption. The cascading effect of taxes led to severe distortions of commodity prices .There were unprecedented disagreement in the administration, implementation and interpretation of legal text of MODVAT and CENVAT (central value added tax) Credit schemes. Global VAT and GST rate is shown in figure 1

**Figure 1**

| Country | Standard VAT/GST rate in % | Other rates in % | Introduced in year |
|---|---|---|---|
| France | 20 | 10,5.5,2.1 | 1954 |
| Germany | 19 | 7 | 1968 |
| Netherlands | 21 | 6,0 | 1969 |
| Italy | 22 | 10,5,4 | 1973 |
| Argentina | 21 | 27,10.5,0 | 1975 |
| Korea | 10 | 0 | 1977 |
| Mexico | 16 | 0 | 1980 |
| Indonesia | 10 | 0 | 1984 |
| New Zealand | 15 | 0 | 1986 |
| Japan* | 8 | 0 | 1989 |
| Russia | 18 | 10,0 | 1991 |
| South Africa | 14 | 0 | 1991 |
| Singapore | 7 | 0 | 1994 |
| China | 17 | 13,11,6,5,3 | 1994 |
| Australia | 10 | 0 | 2000 |
| Malaysia | 6 | 0 | 2015 |
| India | 18 | 5,12,28 | 2017** |

### *What kind of GST is implemented in India?*

India has implemented the Canadian model of Dual GST, i.e., both the Centre and State will collect GST.

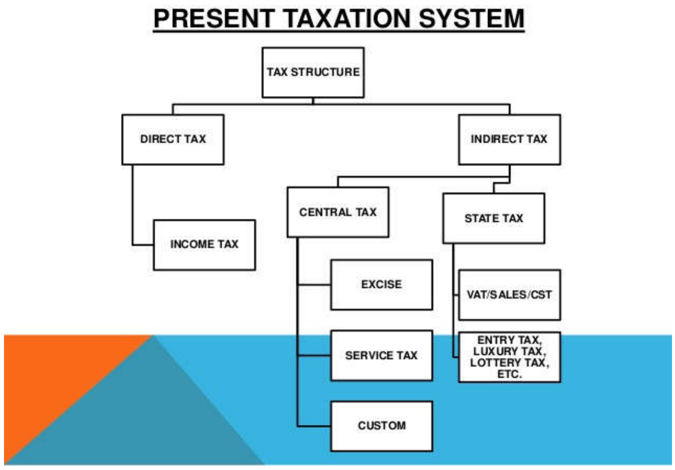
- Components: GST is mainly divided into two components i.e namely, Central Goods and Service Tax and also State Goods and Service
- Applicability: GST is applicable to all the Goods and Services sold and provided in India, only except from the list of exempted goods which fall outside its purview.
- Payment: At central and State level GST is paid disjointedly.
- Credit: The facility of Input Tax Credit at Central level is available in respect of Central Goods and Service tax.

GST is a destination based tax system where the supply of goods and services are base for charging tax. GAT is very inclusive indirect taxation system on manufactured product and services, sale and consumptions of goods and services at national level. GST is one of the biggest tax reforms after independence till the date. Clause 366(12A) of the Constitution Bill defines GST as "goods and services tax" implies any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. Further the clause 366(26A) of the Bill defines "Services" as anything other than Goods. Thus it can be said that GST is a comprehensive tax levied on manufacture, sale and consumption of goods and services at a national level. The proposed tax will be levied on all transactions involving supply of goods and services, except those which are kept out of its ambit.

### *Comparison of previous tax structure and GST tax structure*

Previous Tax Structure: The previous tax structure of India has been indicated in the Fig 2 below. This structure shows the relation between direct tax, income tax, indirect tax, central excise, VAT, entry, luxury tax etc.

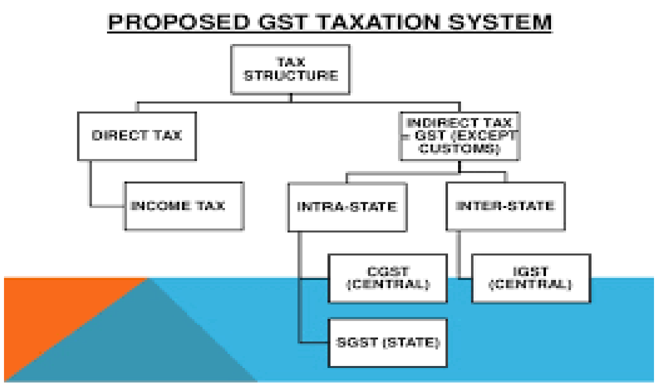
**Figure 2**




### *GST taxing structure*

The figure 3 shows the GST Tax structure which enumerates the relation between Intra-state GST, Inter-state GST, central GST, state GST, Integrated GST etc.

**Figure 3**



***Impact of GST on Indian Economy***

Expected reduction in prices of FMCG goods such as shampoos, chocolates, Eating out, Small cars, DTH. A considerable increase in prices of Luxury cars, Tobacco, Aerated beverages, Textiles.

***Advantages of GST***

***For Citizen***

- Simpler tax system
- Reduction in prices of goods and services due to elimination of cascading.
- Uniform price throughout the country.
- Transparency in taxation system.
- Increase in employment opportunities.

***For Trade/Industry***

- Reduction in multiplicity of Taxes
- Mitigation of cascading /double taxation
- More efficient neutralization of taxes especially for exports
- Development of common national market.
- Simpler tax regime-fewer rates exemption.

***For Central and State Governments***

- A unified common national market to boost Foreign Investment and "Make In India" campaign Boost to export /manufacture activity
- Generation of more employment,
- Leads to reduced poverty and increased GDP growth.
- Improves the overall investment climate in the country which will benefit the development of the states.
- Uniform SGST and IGST rates to reduce the incentives for tax evasion.
- Reduction in compliance costs as no requirement of multiple record keeping.

***Challenges of GST in Indian Context***

GST will be the biggest reform in Indian taxation since 1947, but there are many hurdles for its successful implementation. These are as under

***Consent of states for implementing GST***

It is critical that GST bill is passed by the respective state Governments in state assemblies so as to bring majority.

***Revenue Neutral Rate (RNR)***

It is one of the prominent factor for the success. We are aware that in GST regime, the government revenue would not be the same as compared to the current system. Hence, through RNR government has to ensure that its revenue remains the same despite of giving tax credits.

***Threshold Limit in GST***

While achieving broad based tax structure under GST, both empowered committee and Central Government should ensure that lowering of threshold limit should not be a "taxing" burden on small businessmen in the country

***Extensive Training to Tax Administration Staff***

GST is absolutely different from previous tax system. It, therefore, requires that tax administration staff at both Centre and state to be trained properly in terms of what the structure is, legislation and the procedure.

***Additional Levy on GST***

The Purpose of additional Levy is to compensate states for loss caused to revenue while moving to GST. We acknowledge that fundamental purpose of GST is to make "INDIA" as one state where inter-state movement of goods is common phenomenon. In this situation, it would defeat the very purpose of GST in India

***Demonetization and GST***

The absence of an extensive black market economy encourages more dealers to register under indirect tax acts. The buyers of goods can benefit themselves Input Tax Credits (ITC) only on purchases made from registered dealers. The incentive structure will stimulate buyers to restrain from buying from an unregistered dealer if the option to buy from a registered dealer exists. Dealers below the registration threshold will find it an economic inevitability to register, in order to survive in the market. Black money annihilation will also force dealers to come into the light since no buyers will exist for them. Registration of dealers will help to automate the process, which is a pre-requisite for GST and will help to achieve the aim of unifying the Indian market by identifying each commercial transaction.

## CONCLUSION

Taxation plays a noteworthy role in the development of the economy as it impacts the efficiency and equity. It is expected that a good system should control income distribution and at the same time it will also endeavour to generate tax revenue which will support government expenditure on public services and improvement of infrastructure. GST has positive impact on Indian economy. GST has faced lots of controversy and opposition in terms of its execution. Finally the GST bill has been passed and it is already implemented in the market. International trade, firms and consumer have new system of tax which is single level and more transparent. The new system of taxation is regarded to be more improved system over the pre-existing central excise duty at the national level and sales tax system at state level. The new tax is a significant breakthrough and a logical step towards a comprehensive indirect tax reforms in the country. GST is not only integration of Vat plus service tax but it is major improvement over previous VAT system. A single tax will help maintain simplicity and transparency by treating all goods and services equal without giving a special treatment to some types of goods and services. It will reduce the litigation on classification of disputes. It is also said that implementation of GST in Indian framework will lead to commercial benefits which VAT has not given and hence it would essentially lead to economic development of our country. GST assures the possibility of overall gain for industry, trade, agriculture and also to central and state government. Now Indian consumer need to have professionalism to acknowledge the new system of taxation (GST). It is sure that India will join the international standards of taxation, corporate laws and managerial practices and also be among the world leaders in near future.

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