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Research Article

IMPACTS OF GST IN GDP GROWTH-A DETAILED STUDY ON TRADE OFF BETWEEN GDP AND GST IN INDIAN SCENARIO

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A R T I C L E I N F O

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A B S T R A C T

The country's most ambitious and determined economic restructuring since LPG is now a reality. The country has introduced a new-fangled and unvarying indirect tax system- GST -Goods and Services tax along the length and breadth of the country and it came into effect from July 1, 2017. All indirect taxes collected by state government and central government have been replaced by a single unified tax GST. After the midnight launch of GST, Prime Minister coined a new phrase for GST – Good and Simple Tax. Later he announced that GST will unify India economically. Though it is called as Simple tax by Prime Minister of India complexity of the final tax structure has been the matter of debate all through the country. Many find it difficult to take hold of the system completely, and had a hard-hitting time in understanding the revise tax structure. GST has been lauded for many reasons by many; dissatisfaction has been reflected by many strikes day before and day after the launch. It is believed by the government and people that GST will put an end to corruption and black money. This also put an end to tax terrorism, the cascading effect of tax. It also benefits the economy in various means such as; it will create a unified National market, make India a manufacturing hub, boost investment and exports and generate more employment through many economic activities. This in turn benefits the customer in number of ways that includes customers can avail the product and service at lower price , the purchasing power of the buyer will increase, demand will increase and production will increase. All these benefits have an impact on GDP which may increase by 1% to 3% according to experts. India accounted 7.1 % growth till the March quarter, 2016-17. This paper presents on overview of GST concept and more focussed on GST impact on the Indian Economy

INTRODUCTION

Over 150 countries in the world tag along the value added tax system. India could not be an exception from VAT. All states have followed VAT since 2005. The former government pioneered the bill to amend article 115. But the former government has gained no majority to pass the bill. But the BJP government introduced the bill to amend article 101 in September 8, 2016 with some modification. Whether GST is a innovative tax method or modification of the existing tax method has to be understood first. GST is levied on Production, Sales and Service that are combined together aggregately or independently. But before GST, the central government has levied tax at the production and service level. State government collects only Sales tax. But now with the consultation and Cooperation of states, according to 246(A) the constitution without any difference introduced GST as a the independent India in the way of Taxation. GST is considered as integrated method of tax including all indirect taxes. This method will be helpful to avoid the practice of tax on taxes method. So, the welfare of the consumer is considered and it is a out of the ordinary feature of GST. The earlier method of taxation will fester in the manufactured states and the GST will in turn serve as a carrier to carry the payback to the destination state, the State in which the products have been consumed. The consuming states have to depend on the producing states and the consuming states go frail in the economy. Hence it is not helpful for even economic development. Only because of this reason, the GST is changed as destination based. This kind of transformation, it is believed will bring economic changes. The economy of states will be integrated by GST. The states will become self sufficient, the dreams comes true. A computerized network has been structured for the sharing of taxes between Centre and State. Because of GST, production and manufacturing will increase considerably and it will promote our economy in the long run. But for the short run, the revenue of tax will not increase, according to the Standard Control Institute, PITCH.

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The extent of financial assistance India gets from World Bank will be increased like other developed countries because of GST, according to experts. The success of GST would rest upon effectiveness, even-handedness and straightforwardness.

Need of the Study

This study will help us to inspect the impact of GST on GDP after its implementation; it will show the gap of GST rate between India and other countries which recently implemented GST and most importantly the challenges for the implementation of GST.

REVIEW OF LITERATURE

Agogo Mawuli (May 2014) studied, "Goods and Service Tax- An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

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.

Ehtisham Ahmed and Satya Poddar (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.

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.

Objectives of the Study

- To study the impact of GST on Fiscal stability and economic development
- To analyse the awaiting challenges after the implementation of GST

RESEARCH METHODOLOGY

The study is an explanatory research and the data used in the study is based on secondary data of journals, articles, newspapers and magazines. Descriptive type research is adopted for enhanced and precision in the analysis

ANALYSIS/ DISCUSSIONS

Entire analysis and discussion of the study is based on two important factors

- Percentage of Indirect tax revenue in total tax revenue
- Ratio of Indirect tax to GDP

From the above chart it is observed that the revenue from indirect tax and its contribution is high in total tax revenue. The indirect tax revenue continuously showing an increasing trend throughout the period of study except during the year 2009-2010.

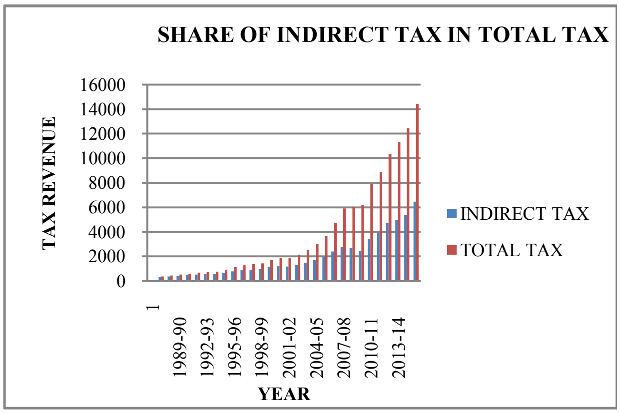

Chart I Share of Indirect Tax In Total Tax

Source: RBI, tax revenue table till 2016

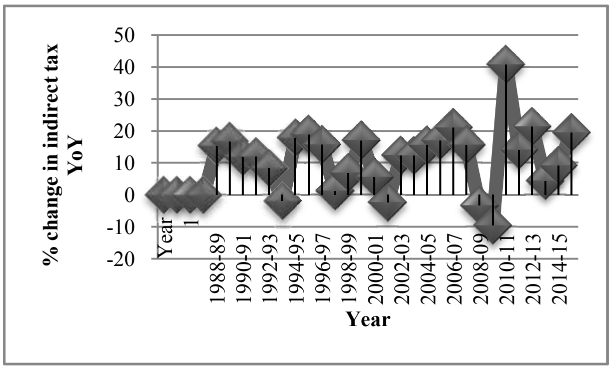

Chart II Percentage Change in Indirect Tax

Source: RBI, tax revenue table till 2016

It is inferred from the above chart that, the percentage change in the indirect tax revenue fluctuates between years. But very high fluctuation has been seen in the year 2010-2011 and there is a sharp increase of 40% compared to the previous year. Decrease in tax revenue has been witnessed in 1993-1994, 2001-2002, 2008-2009 and 2009-2010.

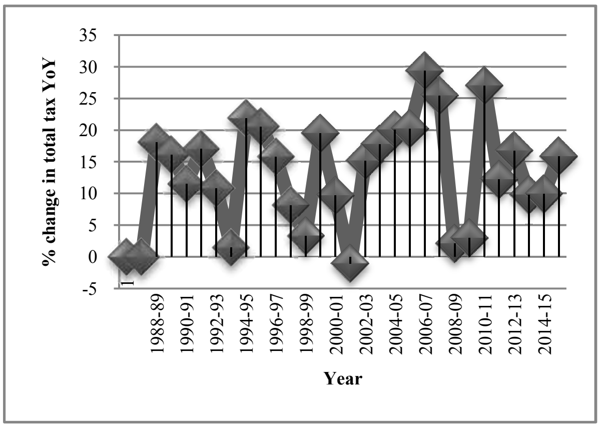

Chart III Percentage Change In Total Tax

Source: RBI, tax revenue table till 2016

It is observed from the above chart that, the total tax revenue also fluctuated and it reached negative during the year 2001-2002 and the percentage change is maximum during 2006 – 2007 and 2010-2011.

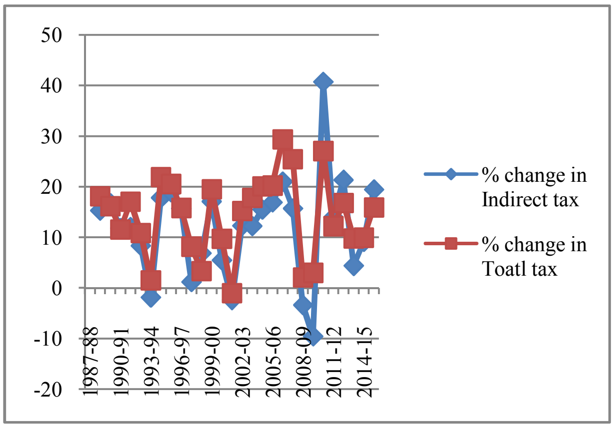

Chart IV Comparison between Indirect Tax And Total Tax

Source: RBI, tax revenue table till 2016

On comparing Chart II and Chart III and Chart IV, it is observed that the percentage change in total tax and the percentage change in indirect tax almost followed a similar pattern right through the period of study. Both witnessed a sharp increase during the tear 2010 – 2011 and both revenues were negative during the year 2001-2002

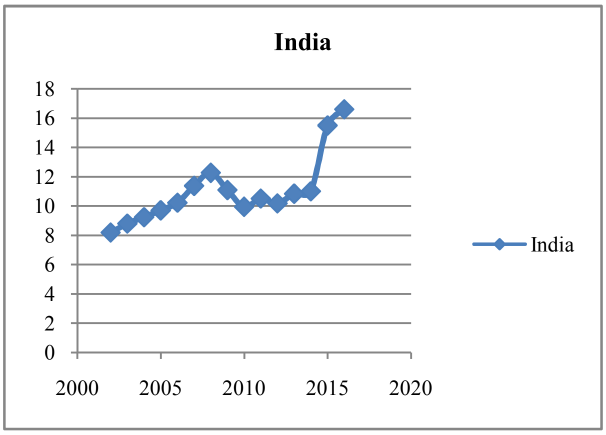

Chart V Indirect Tax to Gdp Ratio

Source: world Bank data

The indirect tax-to-GDP ratio is the ratio of indirect tax collected compared to national gross domestic product (GDP). In a simpler language, it would be the total indirect Tax contribution towards GDP. Deficiencies in the budget of the countries can be resolved by increasing this ratio. During the year 2014-2015 and 2015-2016, the tax revenue has gone significantly compared to GDP which is a positive sign for the economy of India.

CONCLUSION

Based on the above analysis/discussions it is evident that there is a strong relationship between indirect taxes and the country's GDP. It is also clear that a major portion of the tax income constitute the indirect taxes. GST has positive impact on various sectors and it helps to reduce the cascading effect of taxes in the economy, thereby also reducing tax evasion which leads to improved tax collection and better compliance in the system. It also reduces the cost of goods and services in some sectors thereby fostering international trade which helps in revenue generation. Both these aspects have significant impact on the GDP of the country. As observed earlier, since the total taxes constitute majorly indirect taxes these aspects helps the economic development of the country because there is a significant growth in GDP.

It is also found that the central excise collection rose 33.9% and service tax collection rose 20.2% in 2016-2017 which may be due to better tax compliance efforts by government because at that time economy slowed to 7.1%. Indirect tax collection from central excise, service tax and customs duty in the year 2016-2017 aggregated to Rs. 8.63 trillion which was 22% more than the previous year. Excise duty collection rose to Rs. 3.83 trillion from Rs. 2.86 trillion in the previous year and the service tax collection leaped to Rs. 2.45 trillion in 2016-17 from Rs. 2.11 trillion a year ago. This was mainly due to the various steps taken to combat service tax evasion like implementation of negative list based approach, special audits, etc. The implementation of GST is highly beneficial because it helps to curb tax evasion thereby leading to better tax collection and improved GDP of the country.

GST being a unified tax throughout the nation helps in seamless movement of goods and services across all the states thereby reducing the transportation costs (as it also eliminates various kinds of taxes levied on transportation of goods) which also brings down the cost of goods and services. It is found that post GST implementation there is a positive environment that helps the country in export of goods and services as there is nil effect of cascading of taxes on goods and services and thus exports will become more competitive. Increase in exports will also contribute to foreign exchange which aids in better economic development in GDP measures. A research conducted by NCAER also validated the study which revealed that GST will be a key revolution in the Indian Economy and GST would aid to GDP increase from 0.9 to 1.7 percent and the growth is assumed to be around 1 to 2 percent post GST implementation. A study undertaken by International Monetary Fund (IMF) also indicated that GST implementation can foster India's GDP growth rate to over 8%. All these are mainly due to some of the key aspects of GST regime like transparency, better compliance, unified tax rates etc.

GST being a more transparent tax structure helps to generate more revenue to the Government, also reducing corruption and better compliances. It also encourages the 'Make in India' program that was initiated recently, by making input tax credit available to the manufacturers and service providers. Since GST subsumes all the other taxes levied, the exemption available for manufacturers in case of excise duty is removed which will also additionally contribute to increase in Government revenue and thereby county's GDP.

Thus, GST when implemented effectively will have positive impacts on GDP of the country as GDP depends on the revenue generated by the economy in a year. GST will certainly improve the indirect tax revenues of the Government as the rigid tax compliance mechanisms in the GST regime will ensure transparency and better management of tax systems in the country. The government revenue can also be used towards developmental projects and welfare schemes. The increased revenue will contribute to better GDP of the country that will enhance the image of our country in the global platform.

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