



Dyaspurva International Educational Consortium

**Dyaspurva International Journal of
Commerce & Management**

-- Venture of C. D. Jain College of Commerce, Shrirampur



Impact of GST on Indian Economy

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Abstract:

GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. More than 150 countries have implemented GST so far. However, Vajpayee government in 2000 mooted the idea of GST in India and the constitutional amendment for the same was passed by the Lok Sabha on 6th May 2015 but is yet to be ratified by the Rajyasabha. However, there is a huge clamour against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country.

In this research paper researchers analyses the GST from various secondary sources of data available. Research paper listed out the various impact and benefits of GST reform on India Economy.

Key words: Tax Structure, GST, Indian economy.

Objectives of the Study

1. To study the tax reform i.e. GST in India.
2. To analyse the impacts of GST in India.
3. To list out various benefits of GST.

Significance of the study

1. The study would create basic understanding of GST.
2. The study also opens various ways for further research.

Limitations of the study

1. The study is all about India and no short geographical area is selected.
2. The study is done with the help of secondary data collected.

Research Methodology

The research is outcome of the secondary data collected, and conclusions drawn from various recent literature available on physical as well as e-medias.

Introduction

Amidst economic crisis across the globe, India has posed a beacon of hope with ambitious growth targets, supported by a bunch of strategic undertakings such as the Make in India and Digital India

campaigns. The Goods and Services Tax (GST) is another such undertaking that is expected to provide the much-needed stimulant for economic growth in India by transforming the existing base of indirect taxation towards the free flow of goods and services. GST is also expected to eliminate the cascading effect of taxes. India is projected to play an important role in the world economy in the years to come. The expectation of GST being introduced is high not only within the country, but also within neighbouring countries and developed economies of the world.

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%.

Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods.

Impact of GST on Indian Economy

- 1. Reduction in Tax Burden:** Reduces tax burden on producers and fosters growth through more production. The current taxation structure, pumped with myriad tax clauses, prevents manufacturers from producing to their optimum capacity and retards growth. GST will take care of this problem by providing tax credit to the manufacturers.
- 2. Removal of Tax Barriers:** Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to higher needs of buffer stock and warehousing costs. A single taxation system will eliminate this roadblock.
- 3. Transparent System:** There will be more transparency in the system, as the customers will know exactly how much taxes they are being charged and on what base.
- 4. Revenue to Government:** GST will add to the government revenues by extending the tax base.
- 5. Credit for Taxes:** GST will provide credit for the taxes paid by producers in the goods or services chain. This is expected to encourage producers to buy raw material from different registered dealers and is hoped to bring in more vendors and suppliers under the purview of taxation.
- 6. Lower Cost of Transactions:** GST will remove the custom duties applicable on exports. The nation's competitiveness in foreign markets will increase because of lower costs of transaction.

Benefits of GST to the Indian Economy

1. **Removal of IDT:** Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise.
2. **Simplified Tax Policy:** Less tax compliance and a simplified tax policy compared to current tax structure.
3. **No cascading effect:** Removal of cascading effect of taxes i.e. removes tax on tax.
4. **Less Manufacturing Cost:** Reduction of manufacturing costs due to lower burden of taxes on the manufacturing sector. Hence prices of consumer goods will be likely to come down.
5. **Lower the Common Man Expenses:** Lower the burden on the common man i.e. public will have to shed less money to buy the same products that were costly earlier.
6. **Increase in Demand:** Increased demand and consumption of goods.
7. **Increase in Supply:** Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods.
8. **Black Money Control:** Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check.
9. **Economic Development:** Boost to the Indian economy in the long run.

These are possible only if the actual benefit of GST is passed on to the final consumer. There are other factors, such as the seller's profit margin, that determines the final price of goods. GST alone does not determine the final price of goods.

Conclusion:

- The introduction of the Goods and Services Tax will be a very noteworthy step in the field of indirect tax reforms in India.
- By merging a large number of Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation overall easy for the industries.
- For the end customer, the most beneficial will be in terms of reduction in the overall tax burden on goods and services.
- Introduction of GST will also make Indian products competitive in the domestic and international markets. Finally yet importantly, the GST, because of its transparent character, will be easier to administer.
- Once implemented, the proposed taxation system holds great promise in terms of sustaining growth for the Indian economy.

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