

## **GST IN INDIA AND ITS IMPACT ON INDIAN ECONOMY: A DEEP DIVE**

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### **Abstract:**

*India has relinquished the previous complex and inefficient tax regime to embrace much awaited GST. Being a significant economic move post globalisation it requires validation of facts after introduction. It is a single national uniform tax levied across India on all goods and services. In GST, all the indirect taxes will be subsumed under a single regime. The GST taxation laws will put an end to multiple taxes which are levied on different products, starting from the source of manufacturing to reaching the end consumer. GST works on the fundamental Principle of "One Country One Tax".*

**Keywords:** Goods and Services Tax, Globalisation, GST Model

### **Introduction**

The word tax is derived from the Latin word 'taxare' meaning to estimate. A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name. Tax policies play an important role on the economy. The main source of revenue for government of India is from tax. Direct and indirect taxes are the two main source of tax revenue. When the impact and incidence falls on same person it is called direct tax. When the impact and incidence falls on different person that is when burden can be shifted to other person it is called indirect tax. The indirect tax system is currently mired in multi-layered taxes levied by the Centre and state governments at different stages of the supply chain such as excise duty, central sales tax and value-added tax, among others. First Indirect Tax Reform

occurred in India when the Modified Value Added Tax was introduced for selected commodities in 1986 to replace the Central Excise Duty. The other reforms are the introduction of service tax in 1994, decision to introduce VAT in 1999, introduction of Constitution Amendment Bill on GST in 2011. Goods and Services Tax is most ambitious and biggest tax reform plan, which aims to stitch together a common market by dismantling fiscal barriers between states. It is a single national uniform tax levied across India on all goods and services. In GST, all the indirect taxes will be subsumed under a single regime. The GST taxation laws will put an end to multiple taxes which are levied on different products, starting from the source of manufacturing to reaching the end consumer. GST works on the fundamental Principle of “One Country One Tax”.

## **Review of Literature**

A number of research papers and articles provide a detailed insight on GST. The findings from the literature are presented below:-

**Ehtisham Ahmed and Satya Poddar (2009)** studied “Goods and Service Tax Reforms and Intergovernmental Consideration in India” and found that GST introduction will provide simple 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.

**Jana V. M., Sarma & V Bhaskar (2012)** studied “The Road Map for implementation of Goods and Service Tax”. He found that the steps to be undertaken to implement the comprehensive tax system i.e., GST. The authors have thrown light on the constitutional amendment required for the implementation of GST in India.

**Syed Mohd Ali Taqvi (2013)** studied the challenges and opportunities of Goods and Service Tax in India. He explained that GST is only indirect tax that directly affects all sectors and sections of our country. It is aiming at creating a single, unified market that will benefit both corporates and

economy. He also explained the proposed GST model will be implemented parallel by the central and state governments as Central GST and State GST respectively.

**Agogo Mawuli (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.

**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.

With the above reviews we can assume that GST is a tax reform which will change the scenario of the country as a support for this review study.

## **1. Rationale for the Study**

GST is major tax reforms in India and is very relevant for Corporate Community, Relevance for Investment Community, Academicians and Researchers, Government and Industries. So a need is felt by the author to study it and its impact on the economy of India.

## **2. Problem Statement and Study Objectives**

The concept of Goods and Services Tax (GST) is the biggest tax reform in decades throughout the world in many countries, but India has just started implementing it to meet its target of rolling out goods & services tax (GST). The research intends to focus on understanding concept of goods and service tax and its impact on Indian economy.

Accordingly the objectives of this study are:-

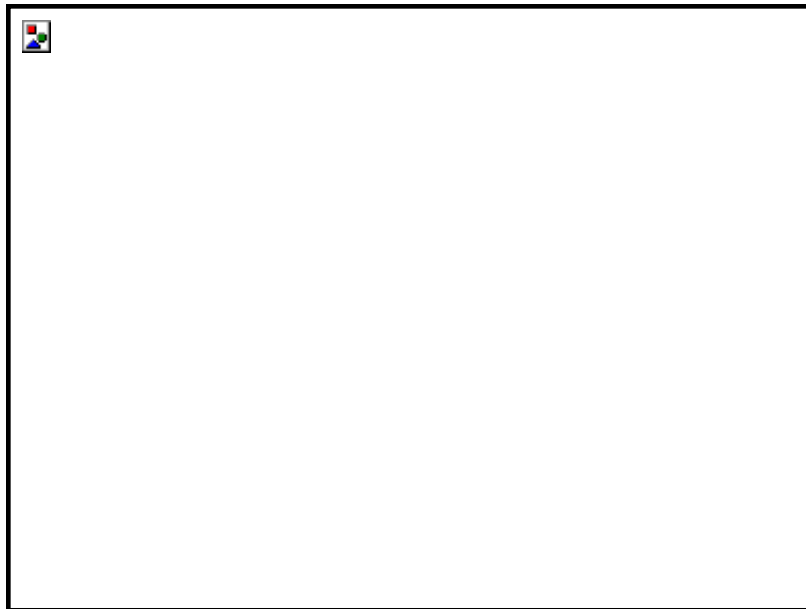
To highlight the needs of Goods and Services Tax in India To study the impact of GST on Indian Economy.

### **3. Methodology**

The study focuses on extensive study of secondary data collected from government websites, various national and international journals and articles, publications, conference papers, government reports, newspapers, magazines which focused on various aspects of tax structure and GST.

### **4. Taxation in India**

For a developing economy like India it is desirable to become more competitive and efficient in its resource usage. Apart from various other policy instruments, India must pursue taxation policies that would maximize its economic efficiency and minimize distortions and impediments to efficient allocation of resources, specialization, capital formation and international trade. Traditionally India's tax regime relied heavily on indirect taxes including customs and excise. Revenue from indirect taxes was the major source of tax revenue till tax reforms were undertaken during nineties. The major argument put forth for heavy reliance on indirect taxes was that the India's majority of population was poor and thus widening base of direct taxes had inherent limitations.



**Fig. 1**

Another argument for reliance on indirect taxes was that agricultural income was not subjected to central income tax and there were administrative difficulties involved in collecting taxes. Refer Fig. 1; Taxes in India are levied by the Central Government and the state governments. Some minor taxes are also levied by the local authorities such as the Municipality. The authority to levy a tax is derived from the Constitution of India which allocates the power to levy various taxes between the Central and the State. The Central Board of Revenue or Department of Revenue is the apex body charged with the administration of taxes. It is a part of Ministry of Finance which came into existence as a result of the Central Board of Revenue Act, 1924. Initially the Board was in charge of both direct and indirect taxes. However, when the administration of taxes became too unwieldy for one Board to handle, the Board was split up into two, namely the Central Board of Direct Taxes and Central Board of Excise and Customs with effect from 1 January 1964. This bifurcation was brought about by constitution of the two Boards under Section 3 of the Central Boards of Revenue Act, 1963.

### **Issues in Existing Tax Structure in India**

The stiff competitive environment prevailed in the international market is forcing the nations and their business enterprise to remove inefficiency from their system and business structure. So it's the time to overcome the bottlenecks which prevalent in the Indian tax regime, to make economy competitive and to serve today's international standards. The following are the bottlenecks in the existing tax structure and its impact on growth of economy:-

**High compliance and administrative cost:** In the existing framework of taxation multiple taxes are being levied on goods and services at different stages in the supply chain. Such different tax structure results in high cost of compliance and tax administration, wastage of time and efforts, tax avoidance and litigation and unexpected delays in supply chain and business process and which will result in slow down the economic growth.

**Adverse effect on the competitiveness of indigenous goods and services because of the cascading effect:** Because of the cascading effect due to multiple taxes the cost for production of service and goods shoots up and that will end up with decrease in profit on such products and services.

**Leads to fragmented markets and promoted inefficient production/ distribution:** The taxes on Inter State movement of goods (CST& entry tax etc.) create tax barriers within India. It holds back India from becoming a single national market. The combined effect of CST and state VAT is reflected in fragmenting India into different state markets.

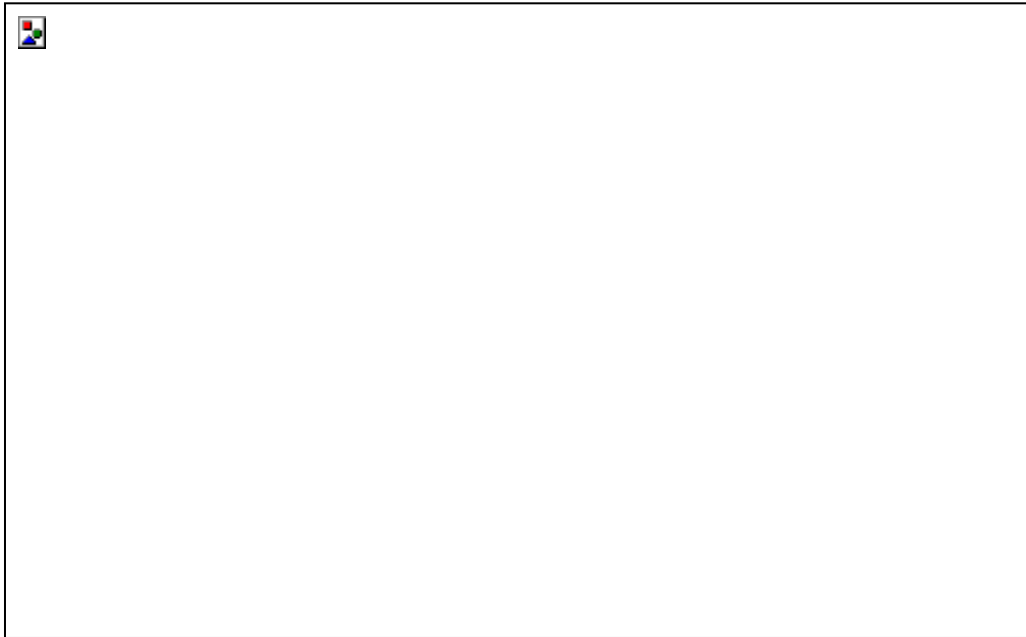
**Domestic tax inefficiencies influence protectionism:** The existence of inefficiencies in the domestic tax structure influences government to continue with the policy of high rate of custom duty to protect domestic industries. Such policy make India high cost economy and makes Indian exports less competitive.

**Leads to Economic distortion:** The wide spread taxation of inputs at different stages encourages vertical integration of firms only for tax purpose and not based on economic consideration.

**Tax reform is imperative:** In the emerging highly competitive world market, the continuation of existing inefficient tax structure will hold back India's growth aspirations and desire to become economic super power. We need to seriously consider replacing the existing tax structure with efficient National VAT/ GST structure, without disturbing country's federal democratic structure. We are far behind in tax reforms compared to other competing countries.

### ***GST (Goods and Services Tax) and its Model***

India has seen a number of tax reforms in the past two decades. Goods and Services Tax is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. The Goods and Services Tax is one of the biggest taxation reforms in the history of Independent India that shall change the face of the tax system of the nation. The primary idea behind this move is to replace a multitude of existing taxes in the form of value-added tax, service tax, excise duty and sales tax by levying a single integrated and comprehensive tax on the manufacture, sale and consumption of goods and Goods and Services Tax is most ambitious tax reform plan, which aims to stitch together a common market by dismantling fiscal barriers between states. It is a single national uniform tax levied across India on all goods and services.

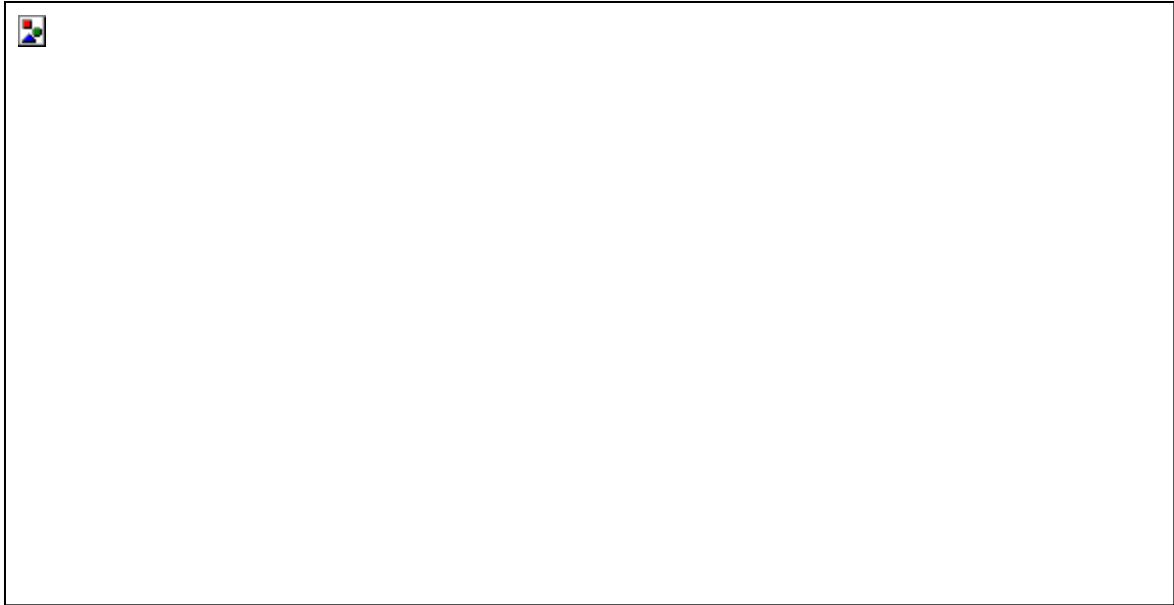


**Fig. 2**

Refer Fig. 2. In GST, all the indirect taxes will be subsumed under a single regime. The GST taxation laws will put an end to multiple taxes which are levied on different products, starting from the source of manufacturing to reaching the end consumer. GST works on the fundamental Principle of “One Country One Tax”. GST is an indirect tax which will subsume almost all the indirect taxes of central government and states governments into a unified tax. As the name suggests it will be levied on both goods and services at all the stages of value addition.

It has Dual-GST model including central goods and service tax and states goods and service tax . CGST will subsume central indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs; counter veiling duties whereas indirect taxes of state governments like state vat, purchase tax, luxury tax, octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax. Refer Fig. 3 for GST Model. GST will be applicable to all Goods and

Services sold or provided in India, except from the list of exempted goods which fall outside its purview.



**Fig. 3**

In its working, the dealers registered under GST (Manufacturers, Wholesalers and retailers and service providers) will charge GST on the price of goods and services from their customers. They will claim credits for the GST included in the price of their own purchases of goods and services used by them. The sellers or service providers collect the tax from their customer, who may or may not be the ultimate customer, and before depositing the same to the exchequer, they deduct the tax they have already paid.

### ***Impact on Indian Economy***

Indian economy is getting more globalized over the past two decades. 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. It is likely to improve the country's tax to GDP ratio and also inhibit inflation. The positive and negative impacts are discussed below:-

### **Positive impacts on the economy**

Implementation of a single National GST will have major beneficial impact on all stake holders. The key highlight of such impact is given below:

**Eliminates cascading effect & barrier free tax structure:** GST will eliminate cascading (tax on tax / compounding tax) impact on the production and distribution cost of goods and services. This reduced cost of goods and service leading to accelerated GDP growth. GST without tax barriers will leads to economies of scale in manufacturing industry and reduces the supply chain cost.

**Expected to reduce the production cost:** GST is expected to reduce the production cost by 15% to 20% in many of the products in view of full input tax credit which will have favorable impact on the prices of product.

**Expected to increase the tax revenue:** GST will widen the tax base and improve the tax compliance higher tax: GDP ratio. The Tax: GDP ratio is expected to increase by 2% as per FRBM report (Fiscal Responsibility and Budget Management). This works out to rupees 70,000 to 80,000 cores of additional annual revenue to the central and state governments.

**Leads to sustainable growth in the economy:** GST will remove the tax distortions from the economy. This will lead to sustainable higher growth based on competitive strength of the country. Simple tax system will attract more productive investment for growth.

**Will lead to optimization and comparative cost advantage:** GST will eliminate the Inter State tax by which it will leads to optimization of physical facilities to the extent of full capacity. If the manufacturing is done at full capacity industry will be benefited by comparative cost advantage.

**Increase in the GDP and standard of living:** Since it is expected that with the implementation of GST the price level will reduced in the economy, it will results in increase in the consumption level and growth in GDP of the economy. According to study by NCAER (National Council for Applied Economics and Research) complete implementation of GST could lift GDP growth by 0.9-1.7%.

**Positive effects on export and BOP (Balance of Payment) level:** In proposed GST the exporter will get the full tax credit, the export units will be able to quote better price for their products and services in comparison with present scenario. Increased export will ultimately have positive effect on the BOP (Balance of Payment) of the country.

**Makes the tax structure simple and reduces the compliances:** Multiple taxes that currently exist will no longer remain in the picture. This will reduce the compliances to be fulfilled as compared to present situation.

## **Conclusion**

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. The ongoing tax reforms on moving to a goods and services tax would impact the national economy, International trade, firms and the consumers. There has been a good deal of criticism as well as appraisal of the proposed Goods and Services Tax regime. By the above discussions one can reach following conclusion:-

- The macroeconomic impact of GST is significant in terms of growth effects, price effects, current account effects and the effect on the budget balance.
- In developing open economy with growing service sector, a change in the tax mix from income to consumption-based taxes is likely to provide a fruitful source of revenue.
- The proposed structure will simplify the procedure which will end up with equal opportunity for all the markets and in other hand will lead to reduced tax evasion.

It is preferred every economy must adopt GST at national level to make their economy attractive for foreign investors. By implementing GST, the developing economy like India can achieve sustainable and balanced development. Slowly, India shall move to join the world wide standards in taxation, corporate laws and managerial practices and be among the leaders in these fields.

It can also be concluded from the above discussion that GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax

set off and subsuming the several taxes. It can be further concluded that GST have a positive impact on various sectors and industry.

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