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# Impact of GST on Indian Economy

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## • Abstract

GST is a tax on goods and services which value addition at each every stage having comprehensive and continuous chain of set benefits from the producers / service. Producers point up to the retailer's level where only the final consumer would bear the tax. It is really a big relief for business as even today, because of layers of taxes and exemptions the cost of tax compliance in India is too high. In sum, it is a much need landmark reform. It will be interesting to see how this proposed GST will impact on the growth and development of the country.

## • Introduction

The word tax is derived from Latin word 'Taxare' which means to estimate. A tax is an enforced contribution, exacted, pursuant to legislative authority. Indian taxation system comprise of Direct and Indirect Tax. Goods and Service Tax (GST) is one of the most discussed Indirect Tax reforms. It is a comprehensive tax regimes levied on manufacture, sales and consumption of goods and services. It is expected to bring about 2% increment GDP growth of the country. So, GST is the need of the hour.

France was the first country to introduce GST in 1954. Under the GST scheme no distinction is made between goods and services for levying of Tax. This means that goods and service attract the same rate of Tax. GST is a multi-tier tax where ultimate burden of Tax fall on the consumer of goods/services. It is called as value added Tax because of every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on output, whether for provision of services or sale of goods; is entled to get input tax credit on the tax paid on its inputs since VAT was beneficial for the taxation system but with certain shortcomings which are expected to be overcome by the Goods and Service Tax. Thus, it would definitely a positive reform for the indirect tax system in India.

India is a federal country where tax is levied by federal and state government where central government collects Direct tax as well as Indirect taxes and state Government collects only Indirect taxes.

## • Objectives of the study

- 1) To get information about GST.
- 2) To study the impact of GST on Indian Economy.

**• Research Methodology**

The paper based on secondary sources of data, which have been obtained from various GST implementation discussion paper published articles in journals, web articles, past studies and newspaper etc. with the help of secondary sources, attempt has been made to find the impact of GST on Indian Economy.

**• GST in India**

Finance Minister Arun Jaitley introduced the 122nd constitution Amendment Bill in parliament and intends to implement GST reform by 1st April 2016.

**• Model of GST**

There are three types of model of GST

- 1) GST at Central Government level only.
- 2) GST at State Government level only.
- 3) GST at both, Central and State Government level.

**• Benefits of GST**

- 1) A single registration for both CGST and SGST will reduce transaction cost and also unnecessary stages. To make this more effective Government has to provide necessary infrastructure & integration of states level with the union.
- 2) With the introduction of GST Tax on Tax multiplicity of taxation will be eliminated. A number of taxes currently levied on each level of transaction will be reduced.
- 3) There will be no fear of taxation that may crop up at any stage of supply chain. This will not only help the business community to decide price modalities and supply chain but also the consumers in the long run.
- 4) Consumers will be benefited the most as the average tax burdens will be reduced with the introduction of GST.
- 5) Implementation of GST will help reduce the corruption in the country, because GST reduces the multiple tax system.
- 6) Due to full end-to-end seamless credit manufacturers or traders do not have to include taxes as a part of their cost of production which is a very big reason to say that we can see a reduction in prices.

**• Impact of GST on Indian Economy**

The Goods and Service Tax bill is expected to provide the much needed pace of growth of economy in India by transforming the existing complicated taxation system into single point taxation system in the country. Uniformity of tax will lead to single point taxation for supply of goods or services across country. GST would improve the country's tax to GDP ratio and also prevent inflation. However with GST manufacturing



sector may be benefited but things may get difficult for the service sector. It is expected that the GDP growth is likely to be raised up 1 to 2%. But the results can only be analyzed after the implementation of GST.

GST would be beneficiary for the FMCG pharmaceuticals, consumer durables, Automobiles and logistic industries and will have negative impact on telecom, banking & financial sector services.

### • Impact of Goods and service Tax

#### 1) Fast moving consumer goods sector

The Indian FMCG sector is the fastest growing centre in the economy. FMCG sector is the major contributor in both Direct and Indirect taxes in the economy. The current rate of taxation in FMCG Sector is around 22 to 25% and after GST rate is expected to be much lower which will result in reduction of prices of consumer goods.

#### 2) Information Technology enabled Services

The IT industry will not hamper by the implementation of GST. The expected rate of GST in IT sector is 27%. According to proposed plan if software transferred through electronic form will be considered under goods. So the IT industry will make mix taxation.

#### 3) Pharma Industry

India is the largest producer of Generic Medicines and the country's pharmaceutical industry is 3rd largest in the world currently. The implementation of GST would have a constructive effect on healthcare industries particularly pharma. The merger of all the taxes into one uniform tax will ease the way of doing business. GST would also improve the transportation and supply chain of pharmaceuticals products.

#### 4) Transportation Industry

GST on transport sector will result in more efficient cross state transportation. It will bring down the logistics cost reduced times for transportation some cause the delays for an average of 6 to 7 hours GST would replace around 15 states and federal taxes and tariffs for a single tax at the point of sale of goods.

#### 5) Service Sector

Service sector of India consists of 60% of GDP. The GST rate for services is expected to be 18 to 20% which is higher than the current rate of tax that is 15%. So there will be increase cost for services like Banking, Telecom & insurance.

#### 6) Textile Industry

It is expected that the tax rate in GST would be higher in textile industry as per the current tax rate. Cotton and Wool fiber which are currently exempted from tax would come under tax in GST but the textile industry may be beneficial from GST as manufacturing cost, may be reduced may be due to subsume of various taxes like octroi, entry tax, luxury tax etc.

### 7) Food industry

A large portion of consumer expenses of lower income families spend on food. So if there is any tax on food will influence majority of the population. So it would be ideal if the GST rates may be zero or would be very low as it would affect people quiet significantly.

### 8) Infrastructure Sector

Development of roads, power, railways ports etc. are the major infrastructure sectors in India. As the taxation system in infrastructure sector is very complex. There are exemption and subsidies for this sector as it is very important for the development of the country.

### 9) Agricultural Sector

The GST on Agricultural sector will have a positive impact as all the taxes will be subsumed under a single rate of tax. So the movement of agricultural commodities between states will be easier & hassle free which will save the time and remove wastages for the transportation of perishables item.

### • Conclusion

GST is definitely a good move to reform indirect taxation in India and has positive effect on GDP growth. Tax revenue, export and employment and so many but even after a decade Government have failed to implement it, due to variety of reasons like. Compensation mechanism for the state, GST rates and issues relating to food products, petroleum, tobacco and many political issues as well. With lots of flows in present tax structure which is affecting the growth with global economy there is a need to implement GST and to streamline out growth with global economy. The implementation of GST would prove way for a simple and understandable tax structure and also help in avoiding and evasion taking place at any level. Thus lot being said and done an appropriate implementation would lead to actually understand whether 'GST' is boon or bane.

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