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INTERNATIONAL RESEARCH JOURNAL OF MULTI DISCIPLINARY STUDIES

Approved by : University Grant Commission (UGC)

MONTHLY DOUBLE-BLIND PEER REVIEWED REFERRED OPEN ACCESS INTERNATIONAL JOURNAL

www.irjms.in

E-mail : irjms2015@gmail.com irjms.in@gmail.com

Volume - IV Special Issue - VI ISSN : 2454-8499 February 2018

Impact Factor : 1.3599(GIF), 0.679 (IIFS)

SPECIAL ISSUE ON
GST – CONCEPT ISSUES, OPPORTUNITIES AND CHALLENGES

INTERNATIONAL RESEARCH JOURNAL OF MULTIDISCIPLINARY STUDIES

IRJMS

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International Research Journal of Multidisciplinary Studies

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Published by
IJRMS
Sr. No. 397, Flat No. 7, 4 Sizan Society,
Bhugaon, Tal. Mulshi, Dist. Pune 412115

Printed by
Anmol Graphics
Flat No.3, Ojas Apartment
Sr.No.57/3B, NR, Morya Vihar, Kothrud, Pune 411038

ISSN: 2454-8499 (Online)

Volume-IV, Special Issue –VI, February 2018

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SPECIAL ISSUE ON GST – CONCEPT ISSUES, OPPORTUNITIES AND CHALLENGES

Vol. 4, Special Issue 6, January, 2018 ISSN (Online): 2454-8499
Impact Factor: 1.3599(GIF), 0.679(IIFS)

'Impact of GST on IndianEconomy'

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KeyWords : *Need For GST, Benefits Of GST To The Indian Economy, Impact Of Goods And Service Tax, Impact Of GST On The Indian Economy, Benefits Of Gst.*

Introduction: 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, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 but is yet to be ratified by the Rajyasabha. However, there is a huge hue and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country.

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 andIndirect Tax. Goods and Services Tax (GST) is one ofthe most discussed Indirect Taxation reforms. It is acomprehensive tax regime levied on manufacture,sales and consumption of goods and services. It is expected to bring about 2% incremental GDP growthof the country. So, GST is the need of the hour.Initially the idea was that there would be a nationallevel Goods and Services tax. But as the release offirst discussion by the empowered committee of thestate Finance Ministers on 10.11.2009, it has beenmade certain that there would be a "Dual GST" in thecountry. Centre and state both governments areentitled to charge taxes on the goods and services.Almost 150 countries have introduced GST in someform. France was the first country to introduce GST in1954. While countries such as Singapore and NewZealand tax virtually everything at a single rate,Indonesia has five positive rates, a zero rate and over30categories of exemptions. In China, GST appliesonly to goods and the provision of repairs,replacement and processing services. GST rates of some countries are given below in Table

Rate of GST (Some Countries)

Country	Sweden	France	Germany	New Zealand	Australia	Singapore	Canada	Japan
Rate of GST	25%	19%	19%	15%	10%	07%	05%	05%

World over in almost 150 countries there is GST orVAT, which means tax on goods and services. Underthe GST scheme, no distinction is made betweengoods and services for levying of tax. This means thatgoods and services attract the same rate of tax. GST isa multi-tier tax where ultimate burden of tax fall onthe consumer of goods/services. It is called as valueadded tax because at every stage, tax is being paid onthe value addition. Under the GST scheme, a personwho was liable to pay tax on output, whether forprovision of service or sale of goods, is entitled to getinput tax credit (ITC) on

Vol. 4, Special Issue 6, January, 2018 ISSN (Online): 2454-8499
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the tax paid on its inputs.Since VAT was beneficial for the taxation system butwith certain shortcomings which are expected to beovercome by the Goods and Service Tax. Thus, itwould definitely a positive reform for the Indirect taxsystem in India

Need for GST:The proposed GST is going to replace the existing multiple tax structures of Centre and State taxes,is not only desirable but imperative in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires splitting of transaction values into value of goods and services for taxation, which leads to greater complexities, administration and compliances costs. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions and will help in development of a common national market. Salient features • It would be applicable to all transactions of goods and service. • Itistobe paid to the accounts of the Centre and the States separately. • The rules for taking and utilization of credit for the Central GST and the State GST would be aligned. Introducing GST and Its Impact on Indian Economy 179 • Cross utilization of ITC between the central GST and the state GST would not be allowed except in the case of interstate supply of goods. • The Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre. • The taxpayer would need to submit common format for periodical returns, to both the Central and to the concerned State GST authorities. • Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits.

Impact of goods and service tax : Fast moving consumer goods sector: The IndianFMCG sector is the fastest growing sector in theeconomy. FMCG sector is the major contributor inboth direct and indirect taxes in the economy.Implementation of Goods and services tax willmajorly influence Indian economy. The current rate oftaxation in FMCG sector is around 22 to 25% andafter GST rate is expected to be much lower whichwill result in reduction of prices of consumer goods.Food Industry: A large portion of consumer expensesof lower income families spend on food so if there isany tax on food will influence majority of thepopulation or may be regressive in nature. In some ofthe countries like Canada, UK and Australia tax onfood items is while in some countries like Singaporeand Japan tax on food is negligible. So it would beideal if the GST rates may be Zero or would be verylow as it would affect people quite significantly.***Information Technology enabled services:*** The ITindustry will not hamper by the implementation OfGST. The expected rate of GST in IT sector is 27%According to proposed plan if software transferredthrough electronic form will be considered underservices and if by any other media it would be undergoods. So the IT industry will make mix taxation. ***Infrastructuresector:*** Development of Roads,Power, Railways, and Ports etc. are the majorinfrastructure sectors in India. As the taxation systemin Infrastructure sector is very complex. There areexemptions and subsidies for this sector as it is veryimportant for the development of the country. By theimplementation of GST the complex tax will beremoved and would increase tax base.Real Estate Industry: The implementation of GST onreal estate sector will effect partially. As the sale ortransfer of immovable properties are not included inGST. However the procurement of materials ofconstruction is falling under GST. The classificationof goods and services is very important under thissector because it is very necessary to classify thethings which will cover under

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GST and which are not.The implementation of GST will affect same as inservice sector.***Transportation Industry:*** GST on transport sectorwill result in more efficient cross state transportation.It will bring down the logistics cost, reduced times fortransportation. Currently all the 29 states of Indiacollect taxes at different rates on goods that moveacross the state borders that's why the tax ontransportation is collected multiple times. This willmake long delays at different interstate checkpointsfor reviewing by state authorities who checks for theapplication of relevant taxes and other levies. Thiscauses the delays for an average of 6 to 7 hours. GSTwould replace around 15 state and federal taxes andtariffs for a single tax at the point of sale of goods.***Pharma Industry:*** India is the largest producer ofGeneric Medicines and the country's pharmaceuticalIndustry is 3rd largest in the world currently. Theimplementation of GST would have a constructiveeffect on Healthcare industries particularly Pharma. Itwill help the industries by sorting out the taxationstructure since 8 different types of taxes are enforcedon pharmaceutical industries today. The merger of allthe taxes into one uniform tax will ease the way ofdoing business. GST would also improve thetransportation and supply chain of pharmaceuticalproducts.***Textiles Industry:*** It is expected that the tax rate inGST would be higher in textile industry as per thecurrent tax rate. Cotton and wool fibre which arecurrently exempted from tax would come under tax inGST but the textile industry may be beneficial fromGST as manufacturing costs ,may be reduced due tosubsume of various taxes like octroi, entry tax, luxurytax etc. There will be few drawbacks also but GSTwill support the industry in long run.Services Sector: Services sector of India consists of60% of the GDP. The GST rate for services isexpected to be 18to 20% which is higher than thecurrent rate of tax that is 15%. So there will beincrease cost for services like Banking, Telecom andInsurance. ***Agriculture Sector:*** The GST on agriculture sectorwill have a positive impact as all the taxes will besubsumed under a single rate of tax. So the movementof agriculture commodities between states will beeasier & hassle free which will save time and removewastages for the transportation of perishables items

Impact of GST on the Indian Economy :

GST the biggest tax reform in India founded on the notion of "one nation, one market, one tax" is finally here. The moment that the Indian government was waiting for a decade has finally arrived. The single biggest indirect tax regime has kicked into force, dismantling all the inter-state barriers with respect to trade. The GST rollout, with a single stroke, has converted India into a unified market of 1.3 billion citizens. Fundamentally, the $2.4-trillion economy is attempting to transform itself by doing away with the internal tariff barriers and subsuming central, state and local taxes into a unified GST.The rollout has renewed the hope of India's fiscal reform program regaining momentum and widening the economy. Then again, there are fears of disruption, embedded in what's perceived as a rushed transition which may not assist the interests of the country.Will the hopes triumph over uncertainty would be determined by how our government works towards making GST a "good and simple tax". The idea behind implementing GST across the country in 29 states and 7 Union Territories is that it would offer a win-win situation for everyone. Manufacturers and traders would benefit from fewer tax filings, transparent rules, and easy bookkeeping; consumers would be paying less for the goods and services, and the government would generate more revenues as revenue leaks would be plugged. Ground realities, as we all know, vary. So, how has GST really impacted India? Let's take a look.

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Benefits of GST to the Indian Economy :

A) Increased demand and consumption of goods.
B) Removal of cascading effect of taxes i.e. removes tax on tax.
C) Increased demand and consumption of goods.
D) Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise.
E) Less tax compliance and a simplified tax policy compared to current tax structure.
F) Boost to the Indian economy in the long run.
G) Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods.
H) 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.
I) Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check.
J) 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

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