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## GST Impact on Indian Economy

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**Key Words:-** Introduction, Need for GST, Objectives of the Study, Impact of GST on Indian Economy, Positive Aspects of GST, Negative Aspects of GST, Concept of Goods and Service Tax, Conclusion, References.

### Introduction

In recent years, India has been viewed as an attractive and dynamic investment destination, and has witnessed an increased presence of multinational enterprises (MNEs) and a consequential increase in cross-border trade. This has created many opportunities to the Government for improving tax system of the country. In India, since the inception of New Economic Policy (NEP) in 1991, a host of significant developments have taken place in the tax system. The significance of 'taxation' from the point of view of shaping the growth of the economy in the desired direction along with accruing adequate revenue to the Government needs no exaggeration. As the economy grows the tentacles of taxes become longer and stronger and help the Government in ensuring desired socio-economic results.

Though the taxes are as old as mankind itself, the system governing the taxes is on continuous reform and modification. In the contemporary status, where the economy is huge in size, assesseees are umpteen in number, revenue collected is mammoth in quantity and technology used in administration is complex and advanced the Government has herculean task of managing the tax department efficiently and effectively.

### Need for GST

India's recent progress towards economic growth stems from reforms undertaken after the 1991 fiscal crisis, which lifted India from decades of slow growth under socialist rule and offered an opportunity to improve living conditions in the immense, poor country. At the same time much had changed in India after the balance of payments crisis of 1991. Indian policies became more positive about promoting export and allowing foreign capital to participate in the process of India's growth. Globalization and liberalization have become order of the day. The interdependence of economies in their move for development compelled the Governments of all the countries to follow the globalization policies adopted by the major economies of the world. To survive and grow in this economic order rational and competitive tax policies are being adopted by every country. India has also fallen in line with the requirement and has been initiating modifications in direct and indirect taxes. The recent proposals of Direct Taxes Code (DTC) and Goods and Services Tax (GST) are considered as path breaking in the economic restructuring in general and in the taxation area in particular.



### Objectives of the Study

- To conceptualize Goods and Services Tax of India
- To study the impact of GST on Indian economy and its sectors
- To understand how GST will work in Indian Economy System.
- To know the advantages and challenges of GST in Indian context.

### Impact of GST on Indian Economy

Like every coin has two sides; even GST will probably have its own Positives and negative impacts:

#### Positive Aspects of GST

- 1) The main reason to implement GST is to abolish the cascading effect on tax. A product on which excise duty is paid can also be liable to VAT. Suppose a product A is manufactured in a factory. As soon as it releases from factory, excise duty has to be paid to central government. When the product A is sold in same state then VAT has to be paid to the State Government. Also no credit on excise duty paid can be taken against output VAT. This is termed as cascading effect since double taxes is levied on same product.(1)
- 2) GST will lead to more transparent and neutral manner to raise revenue.
- 3) Implementation of GST will help resolve various issues concerning taxation and logistics with regard to e-commerce business, which has been recording rapid growth in the country, says a study.
- 4) Simplified and cost saving system as procedural cost reduces due to uniform accounting for all types of taxes. Only three type of account; CGST, SGST & IGST have to be maintained.
- 5) GST is structured to simplify the current indirect system. It is a long term strategy leading to a higher output, more employment opportunities and economy boom.
- 6) It is beneficial for both economy and corporations. The reduced tax burden on companies will reduce production cost making exporters more competitive.
- 7) GST will reduce transaction costs for taxpayers through simplified tax compliance.

#### Negative Aspects of GST

There are following negative aspects of Goods and Services Tax (GST):

- 1) Majority of dealers are not covered with the central excise but are only paying VAT in the state. Now all the VAT dealers will be required to pay Central Goods and Services Tax (CGST).
- 2) GST is referred as single taxation system in India but in reality it is a dual tax in which both state and centre collects separate tax on single transaction of sale & service. However GST has some negative aspect but at the end it will boost economy.



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- 3) GST would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
- 4) Service tax litigations have risen substantially in recent years and that may be because of the absence of a pan-India Goods and Services Tax (GST) regime that can potentially remove several ambiguities around indirect taxation, experts maintain. (2)

### Concept of Goods and Service Tax

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. One of the biggest taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth. Currently, companies and businesses pay lot of indirect taxes such as VAT, service tax, sales tax, entertainment tax, octroi and luxury tax. Once GST is implemented, all these taxes would cease to exist. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied — at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST, there would be only one tax rate for both goods and services. The goods and services Tax will indeed be a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector.

It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. The GST is expected to replace all the indirect taxes in India. At the centre's level, GST will replace central excise duty, service tax and customs duties. At the state level, the GST will replace State VAT. (3)

### Challenges of GST in Indian Context

At Present, lots of speculations are going as to when the GST will actually be applicable in India. Looking into the political environment of India, it seems that a little more time will be required to ensure that everybody is satisfied. The states are confused as to whether the GST will hamper their revenues. Although the Central Government has assured the states about compensation in case the revenue falls down, still a little mistrust can be a severe draw back. The GST is a very good type of tax. However, for the successful implementation of the same, there are few challenges which have to face to implement GST In India. Following are some of the factors that must be kept in mind about GST:

- 1) Firstly, it is really required that all the states implement the GST together and that too at the same rates. Otherwise, it will be really cumbersome for businesses to comply with the provisions of the law. Further, GST will be very advantageous if the rates are same, because in that



case taxes will not be a factor in investment location decisions, and people will be able to focus on profitability.(4)

- 2) For smooth functioning, it is important that the GST clearly sets out the taxable event. Presently, the CENVAT credit rules, the Point of Taxation Rules are amended/ introduced for this purpose only. However, the rules should be more refined and free from ambiguity.
- 3) The GST is a destination based tax, not the origin one. In such circumstances, it should be clearly identifiable as to where the goods are going. This shall be difficult in case of services, because it is not easy to identify where a service is provided, thus this should be properly dealt with.
- 4) More awareness about GST and its advantages have to be made, and professionals like us really have to take the onus to assume this responsibility.(5)

## Conclusion

The simplicity of the tax should lead to easier administration and enforcement. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%. Under the VAT the rates and regulation vary across different states and there is a tendency that different States cuts their rates to attract more investments which results in lowering govt. revenues. Under GST there will be uniform tax structure where the tax revenue will be divided among states and center according to the consumption cycle.

GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax – a justified step forward. A single rate would help maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some 'special' goods and/or services. This will reduce litigation on classification issues. It is also expected that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development.

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