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# The Impact of GST on Indian Economy

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**Abstract:** In India, the idea of GST was contemplated in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003, named Kelkar Committee. The Kelkar Committee was convinced that a dual GST system shall be able to tax almost all the goods and services and the Indian economy shall be able to have wider market of tax base, improve revenue collection through levying and collection of indirect tax and more pragmatic approach of efficient resource allocation. Under the Goods and Service Tax, every person is be liable to pay tax on output and shall be entitled to enjoy credit on input tax paid and tax shall be only on the amount of value added. GST is a single national uniform tax levied across India on all goods and services. In GST, all Indirect taxes such as excise duty, central sales tax (CST) and value-added tax (VAT) etc. will be subsumed under a single regime. Introduction of The Goods and Services Tax (GST) expected as a significant step towards a comprehensive indirect tax reform in the country, which would lead India for its economic growth. The Proposed study is designed to know the impact on GST on Indian Economy with the Help of Its individual effect on different sectors. Under GST, goods and services fall under five tax categories: 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent. For corporates, the elimination of multiple taxes will improve the ease of doing business. And for consumers, the biggest advantage would be in terms of a reduction in the overall tax burden on goods. "Inflation will come down, tax avoidance will be difficult, India's GDP will be benefitted and extra resources will be used for welfare of poor and weaker section. The Lok Sabha has finally Passed the Goods and Services Tax Bill and it is expected to have a significant impact on every industry and every consumer. Apart from filling the loopholes of the current system, it is also aimed at boosting the Indian economy.

**Keywords:** GST, Indian Economy, Positive Impact, Negative Impact, Central Government, State Government

## I. INTRODUCTION

GST stands for Goods and Services Tax levied by the Government in a move to replace all of the indirect taxes. Under the Goods and Service Tax mechanism, every person is be liable to pay tax on output and shall be entitled to enjoy credit on input tax paid and tax shall be only on the amount of value added. The principal aim of GST is to eliminate cascading effect i.e. tax on tax and it will lead to bringing about cost competitiveness of the products and services both at the national and international market. GST is a comprehensive model of levying and collection of indirect tax in India and it has replace taxes levied both by the Central and State Governments. GST be levied and collected at each stage of sale or purchase of goods or services based on input tax credit method. The historic GST or goods and services tax has become a reality. The new tax system was launched at a function in Central Hall of Parliament on 1<sup>st</sup> July, 2017 (Friday midnight). GST, which embodies the principle of "one nation, one tax, one market" is aimed at unifying the country's \$2 trillion economy and 1.3 billion people into a common market. At the ninth GST council meeting the center made significant concessions to bring states, including the defiant ones. The administrative decisions will be as follows. The state will administer 90 percent of the tax players, including service providers with annual turnover up to rupees 1.5 crore with scrutiny, and audit powers and the balanced 10 Percent will be controlled by the Centre. Tax players above that threshold turnover, including those pay integrated (interstate imports) GST will be equally shared between the center and state, and this will lead to significant shifting of the tax players base from center to state.

## II. OBJECTIVES

- A. To understand the concept of goods and service tax
- B. To find out short effect of GST on Economy.
- C. To find out the Impact of GST in future.

## III. RESEARCH METHODOLOGY

This study is descriptive in nature and it used the exploratory technique. The data for the study were gathered from the secondary sources such as journals, articles published online and offline on various newspapers and websites.

#### IV. NEED FOR GST IN INDIA

##### A. Tax Structure Will be Simple

At present, there are huge number of taxes that has to pay by consumers, with GST it will single tax to pay, which is much easier to understand. For businesses, accounting complexities will reduce and results less paperwork, which will save both time and money. GST will increase economic GDP by 2%-2.5%.

##### B. Tax revenue will Increase

Simple tax structure will bring more tax payers and in return it will be revenue for government.

##### C. Competitive Pricing

What GST will do? Well, it will eliminate all other taxes of indirect taxes and this will effectively mean that tax amount paid by end users (consumers) will reduce. As in Economics, lower will the prices, more will be demand for that product, results in more consumption of goods, which will be benefited to companies.

##### D. Boost to Exports

If Indian market will be competitive in pricing, then more and more foreign players will try to enter the market, which results in more numbers of exporters and benefits to Indian Market. As far there is no tax rate is finalized, but yes GST is much needed in the countries where, it lacks transparency and complex taxation system.

- 1) GST may help to avoid confusions caused by present complex tax structure and will help in development of a common national market.
- 2) Applying of GST will do more than simply redistribute the tax burden from one sector or Group in the economy
- 3) The effective implementation of GST makes sure that India provides a tax system that is almost similar to the rest of world where GST implemented.
- 4) GST will also improve the International level cost competition of various native Goods and Services. GST will provide impartial tax structure that is neutral to business processes and geographical locations within India.

#### V. IMPACT OF GST ON PRICES OF GOODS AND SERVICES

Tax experts claimed that the previous practice of tax on tax – for example, VAT was being charged on not just cost of production but also on the excise duty that was added at the factory gate leading to production cost building up but now all had been gone when GST is rolled out. The prices of consumer durables, electronic products and ready-made garments will be available at low price after rolled out GST. In other aspects, for goods which were taxed at low rate, the impact of GST brings price increment.

The government rolled out the much talked about Goods and Services Tax (GST) on the midnight of June 30. The GST Council has fixed the tax rates, keeping a view on all goods and services; they are classified under tax slabs 0 % (exempted ones), 5%, 12%, 18% & 28%.

#### VI. AN ANALYSIS OF GST AND ITS IMPACT ON INDIAN ECONOMY

The implementation of goods and service Tax(GST) coupled with a digitized economy ushered in by demonetization, will make India's economy look much cleaner and bigger "said union finance minister Arun Jaitley at the vibrant Gujarat global Summit. He said "A new India Has Emerged". It is inevitable that with the increase in level of demand, the level of supply would respond likewise. The GST council is being asked by the ministry of Commerce to keep exporters of the plantation, leather and cement out of its framework and suggested to impose lower tax on them to boost output and increase employment generation. Manufacturers and traders would benefit from fewer tax filings, transparent rules and overall a sound book keeping system. Consumers would be paying less for the goods and services and lead to change their expenditure pattern and livelihood, The government would generate more revenues as revenue leaks would be plugged by GST implementation. The GST implementation has a cost of compliance and tax on most of the goods attached to it. It examines that this cost of compliance will be prohibitive and slightly high for the small scale manufacturers and traders. Resulted to this pricing of goods will go high and has direct impact on cost of living of the society. GST is designed to minimize the rate with a lower rate for essential commodities, and a higher tax rate for the luxurious commodities. Currently, in India, there are 5 slabs, but there will be a shift soon. The experts believe that the country would grow economically in the ease of doing business with the implementation of the most important tax reform ever in the history of the country.



## VII. CONCLUSION

A single taxation system would encourage new businesses and entrepreneurs to engage in service and manufacturing sector. GST levied only on consumption of goods or services. This leads to eliminate economic distortions in taxation amongst states and also helps in free movement of goods, further it also minimize the complexity of taxation. It will also be beneficial to individuals as the prices will go down due to GST and decrease in price leads to increase in consumption and directly increase the GDP. As GST implementation applied at a time for all states lack of policy barrier will be removed. Directly GST will increase the investment in FDI's which increase the foreign exchequer of the country and indirectly increase the employment opportunities. It will promote new startups in India for its business-friendly tax structure.

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