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## Research Article

### IMPACT OF GST ON INDIAN ECONOMY

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#### ABSTRACT

Goods and Service Tax (GST) is a full tax charge on manufacture, sales and expenditure of goods and services. The fundamental aim of GST is to make uniform the scattered indirect tax system in India and avoid the cascading effect in taxation. The impact going to make by GST will be a transformation in the entire tax system in India. GST is termed as biggest tax reform In Indian Tax Structure. It will not be an additional tax, it will include central excise duty, service tax additional duties of customers at the central level, VAT, central sales tax, entertainment tax, octroi, state surcharge, luxury tax, lottery tax and other surcharge on supply of goods and services. The purpose of GST is to replace all these taxes with single comprehensive tax, bringing it all under single umbrella. The purpose is to eliminate tax on tax. This paper will throw light on GST its features and also effect of GST on prices of goods and Services.

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#### 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 levy, tribute, impost, duty, custom, excise, subsidy, supply, or other."

The first known system of taxation was in Ancient Egypt around 3000 BC - 2800 BC in the first empire of the Old Kingdom. Records from that time showed that the pharaoh were collecting tax revenues from the people. Other records are granary receipts on limestone flakes and papyrus. Early taxation is also described in the Bible. The crop comes in, gives a fifth of it to Pharaoh. The other four-fifths portions may keep as seed for the fields and as food households and children. The people of Egypt divided their crop, providing a portion to the Pharaoh. A share of the crop was the tax.

In India, the tradition of taxation has been in force from ancient times. It finds its references in many ancient books like 'Manu Smriti' and 'Arthashastra'. The Islamic rulers imposed Jizya. It was later on abolished by Akbar. However, Aurangzeb, the last prominent Mughal Emperor, levied Jizya on his mostly

Hindu subjects in 1679. Reasons for this are cited to be financial stringency and personal inclination on the part of the emperor, and a petition by the Ulema.

The period of British rule in India witnessed some remarkable change in the whole taxation system of India. Although, it was highly in favor of the British government and its exchequer but it incorporated modern and scientific method of taxation tools and systems. In 1922, the country witnessed a paradigm shift in the overall Indian taxation system. Setting up of administrative system and taxation system was first done by the Britishers. Broadly, there are two types of Taxes viz. Direct and Indirect taxes. Taxes in India are levied by the Central Government and the State Governments. Other minor taxes are also levied by the local authorities such as Municipality or Local Council or Grampanchayat.

In India various taxes are levied by the Central Government body and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. There are various levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State.

Some of the important Central taxes, eg. CENVAT, Customs Duty, Service Tax etc.

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Some of the important State level taxes, eg. State Sales Tax, CST, Works Contract Act, Entry tax, other local levies etc.

The taxes on the sales of goods were levied in situation of the respective Sales Tax enactments and the 'entry of goods' was subject to tax under the respective State Entry Tax enactments and this development prevailed till the improvement process set in upon which these levies were replaced by VAT. The levy of tax on provisioning of services was introduced for the first time in 1994 and has been subjected to persistent vigorous legal challenges. From long time it is proved in India that the transformation to VAT did not solve the issue of non-creditable duties and the consequent cascading effect requiring further reform in the structure in the area and consequently GST demand arose. Despite of existence of multiple taxes like Excise, Customs, Education Cess, Surcharge, VAT, Service Tax etc. GDP of India is much lower than GDP of countries like USA, China and Japan. India has miles to go to achieve this level.

The reference of GST was first made in the Indian Budget in 2006-07 by the then Finance Minister Mr. P. Chidambaram as a single Centralized Indirect tax. The Bill was introduced on December 19, 2014 and passed on May 6, 2015 in the Lok Sabha and Passed in Rajya Sabha on 3rd August 2016. The Government wants to implement GST Bill From 1st April 2017. Clause 366(12A) of the Constitution Bill defines GST as "goods and services tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. So GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level.

#### ***Need of the study***

This study will assist us to examine the impact of GST after its implementation in India, it will show the gap between present various indirect taxes and only one GST, & also the study will show benefits and challenges which GST may face after implementation.

#### ***Research Problem***

The concept of Goods and Services Tax (GST) is the biggest tax reform in decades throughout the world, but India has been taking small steps to meet its target of rolling out goods & services tax (GST) on July 1, 2017. The role of research intends to focus on understanding concept of goods and services tax and its impact on Indian economy.

#### ***Objectives of the Study***

1). To study the concept of Goods and Services Tax (GST) and its impact on Indian Economy, 2). to understand how GST will work in India like developing country and 3). To know the advantages and challenges of GST in Indian situation.

#### ***Research Methodology***

The study focuses on wide study of secondary data collected from various books, National & international Journals, published government reports, publications from various websites which focused on various aspects and important of Goods and Service tax.

#### ***Need for GST Model in India***

##### ***Following are the supporting reasons to adopt GST***

- Present tax system allows is diversity of taxes, the introduction of GST is likely to unique it.
- Many areas of Services which are untaxed. After the introduction of GST they will also get covered.
- GST may help to avoid confusions caused by present complex tax structure and will help in development of a common national market.
- Excise, VAT, CST have the cascading effects of taxes. Therefore, there will be end up in paying tax on tax. GST will replace existing all present taxes.
- GST will lead to credit availability on throughway purchases and reduction in obedience requirements.
- Applying of GST will do more than simply redistribute the tax burden from one sector or Group in the economy to another.
- Achieves, uniformity of taxes across the territory, regardless of place of manufacture or distribution.
- Provides, greater certainty and transparency of taxes.
- Ensures tax compliance across the country
- GST will avoid double taxation to some extent.
- 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.
- 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.
- If the GST is implemented in the true spirit, it will have many positives effects for the stakeholders and will lead to a better friendly tax environment.

#### ***Impact of GST on Indian Economy***

It is expected that the Goods and Service Tax (GST) bill have wide ranging ramifications for the complicated present taxation system in India. It is likely to improve the present taxation system to GDP ratio and also inhibit inflation. However, the transformation is likely to benefit the manufacturing sector but it is difficult for the different services sector. Though there are expectations that the GDP growth is likely to go up by 1 to 2 %, the results can only be analysed after the GST implementation. The response is mixed from countries around the world. While the New Zealand economy had a higher GDP growth, it was lower in case of Canada, Australia and Thailand after the GST was implemented. The one per cent tax that has been proposed as a sop to appease the States for compensating their loss of revenue from the inter-state CST is likely to play a spoil sport. It is probable that it may affect the GDP adversely. The Congress party is already opposing the 1 per cent tax. The GS Tax rate is expected to be around 5-28% and can be assumed as a tax neutral rate. This tax rate is not likely to give any incremental tax revenue to the government. The GST rate will be benefited for the various manufacturing sector where the tax rate is around 24% at present. The major manufacturing sectors these will benefit the most are FMCG, Auto, Cement and other. This is because they are currently reeling under 24 to 38 per cent tax. The sector which is going to be adversely affected is the services sector. Already there has been a hike

from 12 to 14% from the 1st of June this year. Another 4 per cent increase will break their backs. The uniformity in the taxation rate is fine but it should not result in disparity for the goods and services sectors. Nobody has expected that the implications it will have in the services sector if the government moots a higher GS Tax rate like 20% or 28%. The higher GST rate will definitely boost the tax to GDP ratio, while giving financial muscle to the government for increasing the capital expenditure. This is likely to spur growth in the economy. There is definitely a silver lining to the whole exercise. The unorganized sector which enjoys the cost advantage equal to the taxation rate can be brought under the GST bill. This will bring a lot of unorganized players in the fields like electrical, paints, hardware etc. under the tax net. It is easier said than done. It will take a lot of meticulous planning in the implementation of the GST reform for capturing the unorganized sector under its ambit. For one it will widen the tax reach and secondly it will benefit the organized players who lose out revenue to the unorganized sector at present. There are still a lot of unchartered territories which need to be looked into through parliamentary discussions in the sessions. To The Individual one and different Companies, the collection of both the central and state taxes will become one, both components will hike prices on the manufacturing costs and the individual will benefit from lowered prices in the process which will subsequently lead to increase in consumption thereby profiting companies.

**Electrical and Electronic Goods:** Electronic goods like AC, microwave ovens, refrigerators, washing machines etc will be cheaper because presently there is 12.5% excise and 15.5% VAT is levied on them but after GST only single tax will be levied which will bring the prices of these electronic goods.

**Restaurant Bill:** Eating out will also be cheaper because presently both VAT and service taxes are levied on it. But when GST will be levied, it will cut the bill.

**Multiplex Theatre and Media:** Currently 22 to 28 percent taxes are charged on multiplex and media as service tax and entertainment tax both are levied. But after implementation of GST, this tax amount will be reduced to 18 to 24 percent.

**Medicines:** On medicines different taxes are levied. After GST the rate of tax may be reduced by 6 percent.

**Cars:** Small cars will also be cheaper in price.

**Cement:** After implementation of GST 14 to 18 percent less tax will be charged on cement, this will reduce the prices of cement.

Other Goods Accepts these luxury cars, FMCG products, consumer durable, ready-made garments etc will be cheaper when GST will be implementation. On the other hand following are some items which will be costly after levy of GST.

**Packed Food:** Packed food will be costly by 12 percent. It include tea, coffee etc. on which presently no duty is high, but after levy of GST, if central Government charge at base rate, even then prices of packed food will increase.

**Diamonds, Jewellery, Garments:** After GST implementation diamonds, jewellery and readymade garments will be costly

because currently three percent tax is charged on them and after implementation GST the tax may be hiked.

**Services:** There will be increase in prices of mobile bill, Credit Card bill etc. Presently 15.5% tax is charged on these services and with levy of GST it will be 18%, which will make these services costly.

**Textile, edible oil, Low Value Footwear:** Tax rate of excise duty is nil and VAT in most states is 5%. Thus, the overall tax cost for these goods is about 8 to 9 percent. If these goods are kept at standard GST rate of 18% then there would be significant increase in cost of these items for the end customers. If these are kept at lower GST of 12% there would be an increase in cost for consumers. While the Government is sure of the benefits of GST will bring to common man, it is still early days to predict that which items will be cheaper are expensive. Experts say inflation can go up for a year after implementation of GST that's has been the international experience. We have on economy where services tend to dominate and GST will on services will be higher that current situation. On the other hand some articles are outside the taxation right now which will also get added. This is also the reason of higher prices.

**Impact on Employment:** Analysis say that the fear of job losses in GST regime persist as it hits the unorganized players, who have to now come under tax compliance while benefitting the mid large sized companies which are already under the organized sector.

## CONCLUSION

The GST System is basically restructured to simplify current critical Indirect Tax system in India. A well designed GST is an attractive method to get liberate of deformation of the existing process of multiple taxation also government has promised that GST will reduce the compliance burden at present there will be no price different between imported goods and Indian goods & they would be taxed at the same rate and also prices will be same. Many Indirect Taxes like Sales Tax, VAT, service tax etc., will be diminished because there will be unique tax system i.e. GST, that will reduce observance present burden. GST will face many challenges after its implementation and will result to give many benefits. In overall through above important study we conclude that GST play a dynamic role in the growth and development of our country.

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