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## Challenges & Opportunities Before Indian Business Environment

### Impact of Goods & Service Tax on Indian Economy

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**A B S T R A C T**

The word tax is derived from Latin word “taxare” which means to estimate. A tax is one of the major sources of the government. It is an enforced contribution by the people. Indian Taxation System comprise of- Direct and Indirect Tax. Income tax is the direct form of tax which the earner pays in fixed proportion to the government decided at different point of time. In direct taxes include Excise tax, Value Added Tax and the much talked Goods and Services Tax (GST) it is considered as the biggest tax reforms in the country. It is a comprehensive tax levied on manufacture, sales and consumption of goods and services. This tax (GST) is the biggest and substantial indirect tax reform since 1947. The main idea of the union government is to o replace existing taxes like value added tax, excise duty, service tax and sales tax. It is levied on manufacture sale and consumption of goods and services. Many countries have implemented GST. However, the idea of GST in our country was mooted in the year 2000 by the then government led by A.B. Vajpayee and the constitutional amendment for the same was passed by the Lokshabha on 6th May 2015. The bill seeks to amend the constitution to introduce GST vide proposed new article 246A. This article gives power to legislature to every state and parliament to make laws with respect to GST where the supplies of goods or services take place. Tax has important implications in country and the lives of countrymen. It has strong impact not only the lives of the people but at the same time it enables the government to strengthen the economy of the country. This paper aims to study the concept of GST and its impact on the country.

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#### 1. Introduction

The word tax is derived from Latin word “taxare” which means to estimate. A tax is one of the major sources of the government. It is an enforced contribution by the people. Indian Taxation System comprise of- Direct and Indirect Tax. Income tax is the direct form of tax which the earner pays in fixed proportion to the government decided at different point of time. In direct taxes include Excise tax, Value Added Tax and the much talked Goods and Services Tax (GST) it is

considered as the biggest tax reforms in the country. It is a comprehensive tax levied on manufacture, sales and consumption of goods and services. This tax (GST) is the biggest and substantial indirect tax reform since 1947. The main idea of the union government is to o replace existing taxes like value added tax, excise duty, service tax and sales tax. It is levied on manufacture sale and consumption of goods and services. Many countries have implemented GST. However, the idea of GST in our country was mooted in the year 2000 by

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the then government led by A.B. Vajpayee and the constitutional amendment for the same was passed by the Lokshabha on 6th May 2015. The bill seeks to amend the constitution to introduce GST vide proposed new article 246A. This article gives power to legislature to every state and parliament to make laws with respect to GST where the supplies of goods or services take place. It is thought that with the introduction of GST the gross domestic product of the country will increase with the incremental rate of about 2%. The said tax has been levied in such a way that the government can earn better revenue without putting extra burden on the people of the country. The government has an idea with overhauling the tax system of the country, with the motive of one nation and one tax. The current tax has the provision of proper division of the tax among the centre and the state. It can be said that the country has come up with the dual pattern of the tax system.

If we see the history of the GST, it is implemented in more than 150 countries in the world. France was the first country to introduce GST in 1954. It was subsequently implemented by many other countries which include Singapore, Canada, Newzealand etc. more than 150 countries in the world are having this method of tax implemented in their countries. GST in India help in curtailing economic inequality by current indirect tax system and expected to encourage uniform tax structure which is indifferent to geographical locations.

## 2. Research Methodology

Secondary data is used from the current magazines, books and the articles from the different journals. However people like economists and the business owners are also interviewed to take the expert feedback and work out on the practical implications of the subject matter to make the study more descriptive.

## 3. Concept of GST

As the name indicates it will be levied on both goods and services at all the stages of value addition. It is implemented in dual model including central goods and service tax (CGST) and states goods and service tax (SGST). CGST will include indirect taxes like central excise, central sales tax, service tax, customs; counter veiling duties. SGST will subsume indirect taxes of state governments like VAT, luxury tax, octroi, purchase tax, tax on lottery and gambling. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state.

## 4. Benefits To The People

- Its implementation has helped in the uniformity of the taxes by eliminating different taxes that were implemented earlier and created big confusion.
- Financial relations between the centre and the state have been defined very clearly with a single system of division of taxes by the medium of CGST & SGST.
- It has reduced and will further reduce and make it easy for the people involved to make numerous transactions by means of different taxes implemented at different levels.

- The price of the commodities and the services can be monitored and regulated easily and effectively by the government.
- The black marketing, in the long run will be reduced as the single mechanism of taxation by virtue of value addition will help it in each level.
- It aims at reducing the corruption as single tax will help the calculation and reduce the confusion and evasion of tax as generally happen in the multiple tax systems.
- It reduces the tax burden on the people that in turn help the traders and consumers to save money.
- It will improve the GDP of the country in a well planned and incremental manner.

## 5. Impact of Goods and Service Tax on Indian Economy

With the global economic crisis in the world India has been emerging as a new ray of hope not only in the continent but also in the global economy. The new programs like digital India, Make in India programs have influenced the economy of the country in one side where as ease of doing business with the liberal policies and newly implemented tax GST has raised a hope of better and developed economic system in the country. If we evaluate the present situation it will become more clear that the new tax has lot of advantages and benefits for the country in short run as well as long run. However service sector people are going to be affected more. The taxes that are implemented in the service sector are more than that of the expected one. By bringing all the taxes under one umbrella under the name of GST it becomes easier for the trader class and the businessmen to save their time and in fact it has become a boon for the people dealing in perishable goods. With the implementation of the GST the but natural expected outcome has been registered by the government in the form of more tax payers and tax collection. The data released by the union government says that as on August 29, 38.38 lakh taxpayers accounting for 64.42 per cent of the total businesses filed their returns. As per registration, 59.57 lakh businesses should file return for July. The total revenue of GST paid under different heads is Rs 92,283 crore.<sup>1</sup> It clearly shows that there is a hike in the tax payers and the tax collection itself. Niti Ayog predicts a 14 per cent growth in 2017-18, followed by 16 per cent and 17 per cent in the next two financial years. It further predicts the indirect tax buoyancy to grow from 1.06 per cent in 2017-18 to 1.11 per cent in 2018-19 and 1.17 per cent in 2019-20.<sup>2</sup> Niti Aayog's the three-year action agenda expects the gross tax revenues to GDP ratio to increase to 12.3 per cent by 2019-20, compared to 11.2 per cent in 2016-17.

## 6. Review of Major Sectors under GST

**6.1 Fast moving consumer goods sector:** FMCG sector is the fastest growing sector in the economy<sup>3</sup>. It is one of the major contributors of tax in the country. The government has planned taxes in such a way that it has been reduced from the previous 25% to 2.5%. On many items the GST rate is much lower that is 2.5% that has given a big relief to the consumer and the trader class. Non branded items fetches 2.5% tax however it varies upto 18% depending upon the different items and their nature.

**6.2 Textile Industry:** Textile industry is another important industry

that deals with the daily needs of the people and in fact it deals with the glamour also. Earlier there were no taxes on cotton and wool but with the introduction of GST it has been taxed @ 6% to 18%. However there will not be any octroi or other type of tax that will further help the manufacturing of the clothes and bring down the prices.

**6.3 Food Industry:** Food is the basic requirement of people and hence it is the major responsibility of the government to control the prices of the eatables so that common and poor men can get their stuff easily. However many countries in the world have put higher tax on food items, but Indian government has excluded many basic food items from the list of GST. On the other hand branded eatables are taxed which are mostly procured by the rich.

**6.4 Real Estate:** Real estate industry has a complex and mixed impact. As this sector depends on many other sectors. Material comes from the mining, metal and many other industries. Similarly many other things like different types of goods and services are to be considered. However the transfer rates are fixed by collectors and which in turn brings about this industry the complex one. It is very important to classify the material under different heads and the services are also to be accessed and classify appropriately. However it is clear that GST will improve the condition of the industry and it will help to reduce the price of the houses and will help the people to get their own home.

**6.5 Service Industry:** service industry is the industry that has witnessed the hike in tax structure as it was there in the past time. GST rate is 18% as it was only 15% earlier. More than 60% of the GDP comes from the service sector; hence it is the most important sector to be examined. This will improve the revenue generation of the government. However this decision of the government has increased the cost of services like banking, insurance, hospital services has increased. It is going to affect the consumer behavior also.

**6.6 Pharmaceutical Industry:** India is one of the pioneers in medicine manufacturing. It is one of the major sectors earning revenue for the country. With the introduction of GST different taxes levied on the medicines are merged into one, it has paved the way for the cheap and good medicine for the needy. However the traders are taking the benefits of the innocent people, their ignorance and this has led to the development of the business.

**6.7 Manufacturing Industry:** With the introduction of Goods and service tax the government has a motive to control the price and to simplify the business by eradicating all the different taxes and also the easy to produce items. In the old tax system subjects manufactured goods to excise duty was calculated differently in different states. While some states calculate excise duty based on transaction value, others calculate it based on quantity.<sup>3</sup> The old system did not allow manufacturers to claim tax credit on inter-state transaction taxes entry tax etc. This results in cascading of taxes—an extra cost to the manufacturing company. Manufacturers end up passing on these extra costs to the consumer. The unified GST regime has eliminated multiple taxes and thus lower cost of production; this, in turn, lower prices for

the consumer. For example, prior to 1 July 2017, SMEs in manufacturing used to pay Excise Duty, Central State Tax and sometimes VAT too at 12.5%, 2% and 5.5% respectively. With GST in effect, they are required to pay 18% in taxes.<sup>4</sup>

**6.8 Information technology:** GST on IT sector has attracted 18% on software services provided by software companies. For purely software services, the cost of such services will increase under GST formation.<sup>5</sup> of course the software services are attracting only 18% of the taxes.

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## 7. Conclusion

Taxes are the most important aspect of any country. It is the primary source of revenue for any country. With the multiple taxes in the country it becomes very difficult for the manufacturers, producers and the traders to cope with the tough and complicated system. This is another reason that many uneducated and small traders steal the taxes. With such a tough system in the place it became the basic requirement of the day. A single tax system has removed all other complex taxes of centre and state government like Vat, Cenvat, Luxury tax, Octroi, Entry tax etc. By the

Implementation of GST cost of manufacturing of goods will reduce. The cost of consumer goods will reduce. It is expected that in long run it will create good revenue for the state and will help the ease of doing business. In India government has a motive to increase taxpayers which will lead to increase the tax. The corruption will also go and the black money will also be reduced. The common people are going to be benefitted in long run.

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