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Impact on Goods and Services Tax (GST) on Indian Economy

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Abstract

The introduction of Goods and Services Tax (GST) would be a very significant step in the field of indirect taxes reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would mitigate cascading effects or double taxation in a major way and pay the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods. Introduction of GST would also make Indian products competitive in the domestic and international markets.

Keywords: Indirect Tax, Direct tax, VAT, and CST

Introduction

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. Goods and Services Tax Bill or GST Bill, also referred to as Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST Will be an indirect tax at all the stages of production to bring about uniformity in the system.

Central and state taxes would be amalgamated into a single tax payment system when the Goods and services Tax (GST) went into effect. Additionally, it would strengthen India's standing on the local and global markets. It would also increase the Economy of India in both, domestic as well as international market level. At the consumer point of view, Goods and Services Tax (GST) would reduce the overall tax amount or burden, which is currently estimated at from 0% to 28%.

Under GST system the Tax payers pay the final tax but take efficient input tax credit system that there is no cascading effect of tax on tax paid on input tax.

With the introduction of GST, various taxes would be unified and a consistent market would be established across the nation, eliminating the need to pay excise duty, service tax, and VAT at the state and federal levels separately. An effective cross-utilization of credits will result from the integration of many taxes into a GST system. The existing system taxes production, but the GST will target consumption.

In a welfare state, the government is primarily in charge of ensuring the well-being of its people in terms of infrastructure, social security, employment, health care, and other development requirements. Revenue is needed by the government to enable this. The government's main source of funding for these kinds of public welfare expenses is taxes. Put another way, the government collects taxes from the people while also spending money on the general welfare of the populace. But nobody likes giving the government his hard-earned cash to pay taxes. As a result, taxes are an obligatory or enforced way for the public to contribute to government revenue. The government has the authority to tax wealth, company earnings, or income, or to increase the price of certain products.

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Major chronological events that have led to the introduction of Goods and Services Tax (GST)

GST is introduced in India after a thirteen (13th) year long time since it was discussed in the report of the Kelkar task force on various indirect taxes. A brief chronological reports the major milestones on the proposal for introduction of Goods and Services Tax (GST) in India is as follows:

1. In 2003, the Kelkar task force on various indirect taxes had suggested a comprehensive GST based on VAT principal.
2. Goods and Services Tax to introduce a national level Goods and Services tax by 1st April 2010 was first time in the Union budget speech for the financial year 2006 – 2007.
3. Based on inputs from Governments of India and states, the EC released its first discussion paper on Goods and Services Tax in India in Nov 2009.

4. Order to take the GST related discussion further, a joint working group consisting of officers from central as well as State Government was constituted in September, 2009.
5. In June 2014, the draft constitution Amendments Bill was sent to the Empowered Committee after approval of the new Government.

Cascading effect of tax (Tax on Tax)

Before GST introduction, when a manufacturer “X” sold goods ₹ 120000 to dealer “Y” from Bihar to Jharkhand, he is liable to collect pay Excise Duty and Central Sales tax at the rate of 12% and 2% respectively, being an inter - state sale. Dealer “Y” in turn sells it to Dealer “Z” in Jharkhand after adding ₹ 10000 and charge VAT on such sale @ 12%. The computations were as follow:

Table 1: Shows the details of Govt. tax

Transaction	Particular's	Amount	Tax to Govt.
Transaction Between “X” and “Y”	Sale price of Goods	120000	14400
	Add: Excise Duty @12%	14400	
	Total	134400	2680
	Add: Central sales Tax @ 2%	2680	
	Total invoice value	137080	
Transaction Between “Y” and “Z”	Sale price of Goods [₹ 137080 + ₹ 10000]	147080	17650
	Add: VAT @ 12%	17650	
	Total invoice value	1644730	
	Total		34730

In this VAT, following are the components of the VAT amount

On actual price of the Goods	₹ 120000 X 12%	= 14400
On Excise Duty	₹ 14400 X 12%	= 1728
On CST	₹ 2680 X 12%	= 322
On value added by Y	₹ 10000 X 12%	= 1200
	Total VAT	₹ 17650

Impact of GST on Indian economy

There are following reason behind to impact of GST on Indian Economy.

1. Streamline tax structure

By combining several indirect taxes into a single tax, GST simplified the tax code, lowering complexity and improving business compliance.

2. Increasing tax compliance

GST's technology-driven procedures like online registration, e-filing of returns, and e-way bills have raised tax compliance. The tax base has grown, increasing the government's tax intake.

3. Economy growth rapidly

The removal of checkpoints and entrance tax barriers at state borders, the simplification of the tax law under the GST, and the removal of interstate limitations all improved efficiency and reduced logistical costs. This promoted

economic growth, particularly in sectors like manufacturing and logistics.

4. Reduction of tax burden

The GST seeks to reduce the tax burden on companies and consumers by eliminating the cascading effect of taxes. The effective input tax credit method has resulted in lower costs for products and services, which has been advantageous for consumers.

5. Economic formation

GST encouraging Businessman to join the formal tax structure, improving tax Collections, decreasing tax evasion, and improving openness of the organizations.

Objectives of the study

1. To study the concept of Goods and services Tax in Indian Economy.
2. To study and analysis of impact of GST on Indian Economy.
3. To study the gaps regarding current research work on Goods and Services tax compliance.

Limitations of the research paper

This research work study is limited to the number of research articles and Books and Bulletin.

Hypothesis

There is no specific hypothesis has been taken for testing research articles as because the study is explanatory in nature for the review of literature aspect the Goods and Services Tax. Additionally as per the need of the study further considerations have been made.

Literature review of Goods and Services Tax

G. Garg, (2014) ^[8] examined how the GST will affect the tax situation in India. He made an effort to draw attention to the goals of the proposed GST strategy as well as any potential drawbacks and opportunities. He came to the conclusion that the GST is the most sensible move our nation has taken since gaining its freedom towards a complete indirect tax reform.

All supplies of goods and services, as well as any combination of them, are subject to GST. The GST will have an effect on all economic sectors, including business, industry, government agencies, and the service sector. The GST will have an immediate impact on all sectors of the economy, including large, medium, and small businesses, intermediaries, importers, exporters, dealers, professionals, and consumers. One of India's largest tax changes, the Goods and Services Tax.

The writers of Pinki *et al.*, (2014) ^[9] have examined the idea of GST, the necessity of implementing it in India, the obstacles to doing so, and solutions to them. The advantages of implementing GST as soon as possible are also covered in the report. The writers have talked about the possibilities for implementing concurrent dual GST, national GST, or state GST in India. In the context of concurrent dual GST, applying GST on both commodities and services was the preferable choice. Another possibility that was investigated was whether state GST would only apply to products and not to services, with the central government collecting GST on services being a challenging task.

Saravanan Venkadasalam, (2014) ^[10] in his research article, used the Least Squares Dummy Variable Model (LSDVM) to assess the impact of the goods and service tax (GST) on the national growth of ASEAN States. He said that the GST is now being implemented in seven out of the 10 ASEAN countries. In order to comply with the requirements of the economic theories, he also proposed that the final consumption expenditures of households and the general government have a positive and substantial relationship with the GDP. However, each country would experience the post-GST differently.

Shaik *et al.* (2011) ^[11] A study by examined the idea of GST and its effects on the Indian economy. Aspects of GST models were also the subject of the investigation. The benefits and operation of GST were also explored in this study. The analysis came to the conclusion that the introduction of GST into the Indian framework will result in economic development by bringing about commercial benefits that the VAT system did not address.

Conclusion

The 2017 implementation of the Goods and Services Tax in India has a significant effect on the growth of Economy. The Economy has been more formalized and compliance has grown as a result of the tax system's simplification. This has accelerated the expansion of sectors like manufacturing and logistics. There have been difficulties, nevertheless, such as transitory inflationary pressures and more compliance requirements for small and medium-sized enterprises. Notwithstanding these difficulties, the GST has generally had a beneficial effect, and growth in the Indian economy is anticipated to continue.

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