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On

## CONTRIBUTION OF GST IN DEVELOPMENT OF INDIAN ECONOMY

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**Editor**

Dr. Shantaram Badgujar  
Principal

Mr. Sharad Kakad  
HOD – Economics & Co-ordinator



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## ADVANTAGE AND DISADVANTAGE OF GST

**Mr. Kakad Sharad Pandharinat**

*Assistant Professor & HOD, Department of Economics, K. V. N. Naik Arts,  
Commerce & Science College Nashik.*

### Introduction:

GST means Goods and Service Tax. Goods & Service Tax is a game changing reform for Indian economy by developing a common Indian market and dipping the pouring effect of tax on the cost of goods and services. It impacts the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting leading to a complete overhaul of the current indirect tax system.

Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Act Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12%, 18% and 28%. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products.

The reform process of India's indirect tax regime was started in 1986 by Vishwanath Pratap Singh, Finance Minister in Rajiv Gandhi's government, with the introduction of the Modified Value Added Tax (MODVAT). Subsequently, Manmohan Singh, and the Finance Minister P V Narasimha Rao, initiated early discussions on a Value Added Tax at the state level. A single common "Goods and Services Tax (GST)" was proposed and given a go-ahead in 1999 during a meeting between the then Prime Minister Atal Bihari Vajpayee and his economic advisory panel, which included three former RBI governors IG Patel, Bimal Jalan and C Rangarajan. Vajpayee set up a committee headed by the then finance minister of West Bengal, Asim Dasgupta to design a GST model.

The Ravi Dasgupta committee was also tasked with putting in place the back-end technology and logistics (later came to be known as the GST Network, or GSTN, in 2017) for rolling out a uniform taxation regime in the country. In 2002, the Vajpayee government



formed a task force under Vijay Kelkar to recommend tax reforms. In 2005, the Kelkar committee recommended rolling out GST as suggested by the 12th Finance Commission. In 2014, the NDA government was elected into power, this time under the leadership of Narendra Modi. With the consequential dissolution of the 15th Lok Sabha, the Goods & Service Tax Bill – approved by the standing committee for reintroduction – lapsed. Seven months after the formation of the Modi government, the new Finance Minister Arun Jaitley introduced the Goods & Service Tax Bill in the Lok Sabha, where the BJP had a majority. In February 2015, Jaitley set another deadline of 1 April 2017 to implement GST. In May 2016, the Lok Sabha passed the Constitution Amendment Bill, paving way for Goods & Service Tax. However, the Opposition, led by the Congress, demanded that the Goods & Service Tax Bill be again sent back to the Select Committee of the Rajya Sabha due to disagreements on several statements in the Bill relating to taxation. Finally in August 2016, the Amendment Bill was passed. Over the next 15 to 20 days, 18 states ratified the Goods & Service Tax Bill and the President Pranab Mukherjee gave his assent to it.

The Goods and Services Tax was launched at midnight on 1 July 2017 by the President of India, Pranab Mukherjee, and Prime Minister of India, Narendra Modi. The launch was marked by a historic midnight (30 June – 1 July) session of both the houses of parliament convened at the Central Hall of the Parliament. Though the session was attended by high-profile guests from the business and the entertainment industry including Ratan Tata, it was boycotted by the opposition due to the predicted problems that it was bound to lead to for the middle and lower class Indians.

#### **Advantages of Goods & Services Tax**

- Goods & Service Tax is a transparent tax & GST also reduce number of Indirect taxes
- Benefit people as prices will come down which in turn will help companies as consumption will increase.
- Goods & Service Tax will also help to build a transparent & corruption free tax administration.
- In the Goods & Service Tax system, when all the taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing & services.
- Goods & Service Tax will not be cost to registered retailers therefore there will be no hidden taxes & the cost of doing business will be lower.



- There is no doubt that in production and distribution of goods, services are increasingly used or consumed and vice versa.
- Presently, a tax is levied on when a finished product moves out from a factory, which is paid by manufacture, and it is again levied at the retail outlet when sold.
- Separate taxes for goods and services, which is the present taxation system, requires division of transaction, leading to greater complication, administration, including compliances cost.
- Goods & Service Tax will be levied only at the final destination of consumption based on VAT principle and not at various point (from manufacturing to retail outlets)
- Goods & Service Tax is backed by the GSNT, which is a fully integrated tax platform to deal with all aspect of GST.

#### **Disadvantages of Goods & Services Tax**

- Some Economist say that Goods & Service Tax in India 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.
- Some Experts says that CGST (Central GST), SGST(State GST) are nothing but new names for Central Excise/Service Tax, VAT and CST. Hence, there is now major reduction in the number of tax layers.
- Some retail products currently have only four percent tax on them. After GST, garments and clothes could become more expensive.
- The aviation industry would be affected. Service taxes on airfares currently range from six to nine percent. With Goods & Service Tax, this rate will surpass fifteen percent and effectively double the tax rate.
- Adoption and migration to the new Goods & Service Tax system.

#### **Conclusion:**

The biggest benefit of Goods & Service Tax is that it wills distinctive tax elusion. If you don't pay tax on sell, you don't get credit for taxes on your inputs. Also, you will buy only from those who have already registered and paid taxes on what they are supplying. As a result, a lot of currently dissident transactions will come over ground. Goods and services will cover lower tax rate on value totaling and set-off against taxes on inputs. Common benefits of Goods & Service Tax are as : Understanding and maintaining easily, Elimination of cross cascading, Competitive development, Optimization of GST rate and infrastructure.



Implementation of one and only sparkling tax system and Reduction of overall tax burden. As the government has implemented the Goods & Service Tax for radical change in Indian economy, upcoming years will show the results as expected.

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