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GOODS AND SERVICE TAX & INDIAN ECONOMY

Dr. Rupali R Shinde.

Head of Dept., Commerce, K.V.N.Naik Arts, Commerce & Science College, Nashik. Maharashtra

Abstract:

Goods and Service Tax is a tax which replaced the state VAT, central excise, service tax and few other indirect taxes. Many countries have adopted GST because they are dissatisfied with their consumption tax structure. Over the years, GST has been adopted as a main form of taxation. Currently, more than 160 countries have implemented GST. GST is a better tax system. It is more transparent, efficient, effective, self-policing and less bureaucratic. It is a tool to manage economy of our country, leads to more competitive pricing, increase in GDP, reduce shadow economy activities etc. This paper focuses on the GST. The importance behind this GST and also it explains about the impact towards our Indian economy.

Key Words: Goods and service tax, economic development, Indian economy and value added tax, Business, Pricing, economy activity, Gross domestic product. TRUE COPY

Objective of Study:

- 1. To study the impact of GST towards Indian economy in general.
- 2. To understand the concept, benefits and features of GST
- 3. To understand how GST will work in India.

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Principal

Introduction:

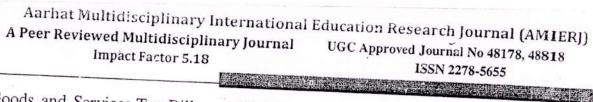
The major source of revenue for any nation is the Tax, so for economic development of the nation it is compulsory to have good taxation system. India started its journey towards tax system in the year 1980. GST would be a major move towards Indian economy as since independence India has faced some of the issues because of complex indirect tax system, this complexity is assumed to be resolved by present GST structure.

Development of the economy depends on the purchasing power of the country. GST is convenient and economically efficient way of taxing the consumption. Basically there are very few exemptions because it has single rate and it becomes a proportional tax on consumption. One level of tax is efficient way of collection.

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.







The Goods and Services Tax Bill or GST Bill, also referred to as The 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.

On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden.

Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods.

In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross-utilization of credits.

Measures undertaken by the Government to ensure a smooth GST implication:

The Government has given businesses ample time to be ready for GST. Education, training, awareness programs and advisory visits regarding GST implementation have and will be conducted on an ongoing basis. Businesses will be allowed to register early before GST enforcement date. Prior to GST implementation, the Government will carry out pilot runs on the systems. The Government has set up a Customs Call Centre (CCC) to enable the public to make inquiries on GST and the existence of the GST Portal will disseminate information on GST to ensure high compliance when GST is implemented. The Government has prepared itself fully to implement GST. The GST legislation, infrastructure, computer system, personnel, and all process and procedures are in place to implement GST.

Benefits of GST: GST will benefit to many parties including Government, Customers and Producers. The various benefits expected are as under:

To the Consumers: The major benefit of GST is that it reduces the cost of product and services. So customers will be getting the products and services at lower cost compared to the price they need to pay in tax structure under VAT. It increases purchasing power and saving capacity.

To the Producers: Because of multiple taxes in VAT there are some comprexities which increases the cost of product, GST, Overcoming all the shortcomings of past tax structure will reduce the cost of product. Producers will be able sale the products at lower cost which directly increases their amount of sales and profit.





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To the Government: GST is easy to understand and implement, Customers whose income will be increased because of lesser tax, will save more and by this government will be getting more amount of investment from customers.

Features /Advantages of GST:

- 1. GST is structured to simplify the indirect system by removing multiple taxes. It creates India as a single market.
- 2. It taxes goods and services at the same rates so many disputes are eliminated on tax matter.
- 3. GST will be levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail out-lets). This will help in removing economic distortions and bring about development of a common national market.
- 4. The procedural cost is reduced due to uniform accounting namely, CGST, SGST, IGST have to be maintained for all types of taxes.
- 5. The reduced tax burden on companies will reduce production cost making exporters more competitive at national and international level.
- 6. More business entities including unorganized will come under the tax sys-tem thus widening the tax base. This may lead to better and more tax revenue collections.
- 7. Many businesses create depots and go downs in different states simply because there is a difference in tax rates. Now that GST will come, this difference between states will vanish. It would help to remove the tax difference as a bias, thereby helping business.

How Goods And Service Tax (GST) Impacts Key Sectors Of India's Economy

GST and Agriculture

Through a comprehensive and wider coverage of input and service taxes setoff, subsuming of several Central and State taxes in the GST and phasing out of CST, it is expected that the GST could increase the prices of agricultural produce between 0.61 and 1.18 per cent and this would be a boon to millions of farmers in India (Thirteenth Finance Commission,

GST and Manufacturing Industry

The incidence of the multistage taxation increases the manufacturing cost of most of the production units in India. But a flawless GST can help this sector to reduce their cost to the extent of almost 50 per cent. This will help them to compete with their counterparts in the west. "Even a two per cent reduction in production cost will increase profits by over 20 per cent, giving headroom for reducing prices and benefitting end-users. It is estimated that the



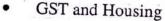


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implementation of GST would reduce the overall prices of all manufacturing sectors between 1.22 and 2.53 per cent (Thirteenth Finance Commission, 2009).

GST and MSME

The threshold of goods under State VAT is Rs. 5 lakh for a majority of bigger States and a lower threshold for North Eastern States and Special 60 Introducing GST and Its Impact on Indian Economy Category States. But as per the GST enterprises above the turnover threshold Rs. 10 lakh both for goods and services will have to be registered. Again, keeping in view the interest of micro, small and medium enterprises and to avoid dual control, the States consider that the threshold for Central GST for goods may be kept at Rs.1.5 crore and the threshold for services should also be appropriately high (Empowered Committee of Finance Ministers, 2009). This increase in threshold will adequately protect the interests of small traders and industries.



In past, the value of a constructed property form part of stamp duty on land and other indirect cases configures. Once gistration of she property examp alors is spanded on the cost including the embedded taxes. There is no mechanism for complete off-set of these taxes. This results in an increase in the overall cost of the property. The GST provides for including within its scope the transactions in real estate. Therefore, for a registered real estate builder, all taxes on inputs (including that on land) will be off-set against the tax payable on the constructed property. This will reduce cost of housing to the extent of embedded taxes and hence will benefit the poor.

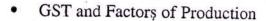
GST and Poverty Reduction

In past, primary food articles like rice and wheat are liable to tax by many States either by way of purchase tax or sales tax at a lower rate. But under the GST, all food items covered under the public distribution system including rice and wheat are proposed to be exempted. As a result primary food articles like rice and wheat would be exempted from GST. Since expenditure on food constitutes a large proportion of the total consumption expenditure of the poor, the GST is designed as a poverty reduction initiative. Like food, basic health and education services are also intended to be fully exempted.

GST and Employment

It is seen that the implementation of GST would result in increased income and output in various sectors of the economy. On account of this increase in higher growth, there will be large scale employment opportunities in various areas like the skilled, semi skilled and unskilled categories.





It is also estimated that the implementation of a flawless GST in India would result in efficient allocation of factors of production thus leading to gain in factors of production, i.e. land, labour and capital. The gains in real returns to land range between 0.42 and 0.82 per cent. Wage rate gains vary between 0.68 and 1.33 per cent. The real returns to capital would gain in the range of 0.37 and 0.74 percent (Thirteenth Finance Commission, 2009)

. GST and Price Level

Though there is an allegation that GST is a regressive tax as it minimizes the number of tax rates to even a single (dual) rate, the subsuming of major Central and State taxes in GST, continuous chain of set-off of input goods and services and phasing out of CST the commitment of taxes on goods would come down under GST. It is anticipated that, other things remaining the same, this would encourage manufacturers and distributors to reduce the prices of their produce and ultimately benefit the consumers. Hence, a 'flawless' GST would be viewed as pro-poor and not regressive.

GST and Exim Trade

In past export of taxes to other countries is sought to be eliminated through the mechanisms of duty draw back on the basis of estimated incidence of embedded taxes. By considering its weakness the GST requires that exports from the taxing jurisdiction would be tax free and imports into the jurisdiction would be taxed at the same rate as products produced and consumed within the jurisdiction. Consequently, both export-oriented industries and import substituting industries would become internationally more competitive. As a result, while exports can be expected to register an increase, imports are likely to decrease. The gains in exports are expected to vary between 3.2 and 6.3 per cent and imports are expected to gain somewhere between 2.4 and 4.7 per cent (Thirteenth Finance Commission, 2009).

GST and GDP

The implementation of a 'flawless' GST across goods and services is expected to induce India's Gross Domestic Product (here after referred to as 'GDP') somewhere within a range of 0.9 to 1.7 per cent. Again, these additional gains in GDP would be earned during ever year over and above the growth in GDP which would have been achieved otherwise.

GST and Government Revenue

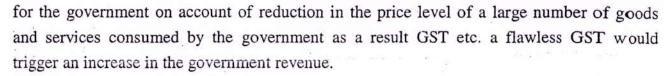
Since all goods and services would be under the purview of GST, it is expected that the number of exemptions would reduce very much. Again, the tendency of tax evasion by producers and distributors will be low as to the single (or dual) and low rate of tax proposed under GST. Further, increased GDP, indirect positive impact on direct tax collections, gain



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Conclusion

To conclude, though the positive impacts referred above are dependent on a neutral and rational design of the GST, balancing the conflicting interests of various stakeholders, full political commitment for a fundamental tax reform with a constitutional amendment, the switchover to a 'flawless' GST would be a big leap in the indirect taxation system and also give a new impetus to India's economic change. It is also noted that, buoyed by the success of GST, more than 160 countries have introduced GST in some form to other and is becoming preferred form of indirect tax in the Asia Pacific region.

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