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# Impact of GST on Indian Economy

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## Abstract

This paper is an analysis Concept of GST ( Goods and Services Tax) and the impact on Indian Economy. This paper also focused on various issues such as History of GST in India, GST Bill, Structure of GST , Need for GST model in India, Benefit of GST etc.

**Key Words :-** GST Concepts, Indian Economy.

## Introduction

The goods and services tax (GST) is an indirect federal sales tax that is applied to the cost of certain goods and services. The business adds the GST to the price of the product; a customer who buys the product pays the sales price plus GST; and the GST portion is collected by the business or seller and forwarded to the government.

France was the first country to implement the GST in 1954, and since then an estimated 160 countries have adopted this tax system in some form or another. Some of the countries with GST include Canada, Vietnam, Australia, Singapore, UK, Monaco, Spain, Italy, Nigeria, Brazil, and South Korea. India is set to join the GST group on July 1, 2017.

The 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 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%.

## What is Goods and Services Tax?

The GST is a Value added Tax (VAT) proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the Indian Central and state governments.



### History of GST in India

In 2000, the Vajpayee Government started discussion on GST by setting up an empowered committee, headed by Asim Dasgupta, (Finance Minister, Government of West Bengal). The committee was given the task of designing the GST model and overseeing the IT back-end preparedness for its rollout.

Later in 2006, Union Finance Minister Shri P. Chidambaram moved towards GST in his Budget, and proposed to introduce it by 1st April, 2010. However, the Empowered Committee of State Finance Ministers (EC) released its First Discussion Paper (FDP) on the GST in November, 2009. This spells out the features of the proposed GST and has formed the basis for discussion between the Centre and the States so far.

On 6th May 2015, the Lok Sabha passed the much-delayed Constitutional Amendment Bill to introduce Goods and Service Tax (GST), paving the way for a new bill on the uniform tax regime, even as the Congress Party staged a walkout in protest.

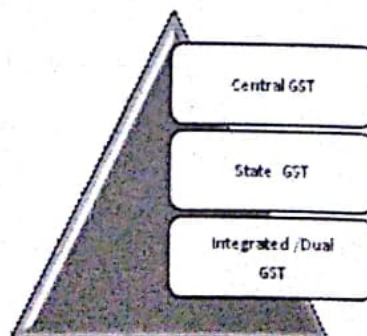
The Bill is set to be sent to a Parliamentary committee for review by the Rajya Sabha. The opposition Congress has said that it favors the GST Bill, but wants the amendments made to it by the BJP government to be vetted by a select committee of the Rajya Sabha, where it has a majority.

In the Lok Sabha – the main Opposition party walked out as the Bill was voted on clause by clause, objecting that the changes made by BJP have not been referred to a standing committee before being brought to the house.

The bill, conceived twelve years ago, being a constitutional amendment, has to be passed by both the houses of parliament by a two-third majority, and once passed, it needs ratification of more than half of the 29 states before its scheduled rollout in April 2016. It has been kept pending because there were some changes required in the basic bill and all the states were not in favor of various provisions of the Bill, particularly in sharing of the revenue collected through GST.

Finance Minister, Arun Jaitley vowed to compensate states for any revenue loss and assured that the new uniform indirect tax rate will be much less than 27% recommended by an expert panel. The minister said, GST, which is proposed to be implemented from April 1st, 2016, will subsume excise, service tax, state VAT, entry tax and other state levies. It would provide great relief to the already tired taxpayers.

### GST Structure in India





### Needs / Benefits of GST to the Indian Economy

- Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise.
- GST is a multi-stage, destination-based tax that will be levied on every value addition.
- Final consumer will bear only the GST charged by the last dealer in the supply chain.
- One Country – One Tax regime.
- Less tax compliance and a simplified tax policy compared to current tax structure.
- Removal of cascading effect of taxes i.e. removes tax on tax.
- Reduction of manufacturing costs due to lower burden of taxes on the manufacturing sector. Hence prices of consumer goods will be likely to come down.
- Lower the burden on the common man i.e. public will have to shed less money to buy the same products that were costly earlier.
- Increased demand and consumption of goods.
- Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check.
- Boost to the Indian economy in the long run.

These are possible only if the actual benefit of GST is passed on to the final consumer. There are other factors, such as the seller's profit margin, that determines the final price of goods. GST alone does not determine the final price of goods.

### Impact of GST on Indian Economy

- Reduces tax burden on producers and fosters growth through more production. The current taxation structure, pumped with myriad tax clauses, prevents manufacturers from producing to their optimum capacity and retards growth. GST will take care of this problem by providing tax credit to the manufacturers.
- Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported. This penalty transforms into major costs due to higher needs of buffer stock and warehousing costs. A single taxation system will eliminate this roadblock.
- There will be more transparency in the system as the customers will know exactly how much taxes they are being charged and on what base.
- GST will add to the government revenues by extending the tax base.
- GST will provide credit for the taxes paid by producers in the goods or services chain. This is expected to encourage producers to buy raw material from different registered dealers and is hoped to bring in more vendors and suppliers under the purview of taxation.

- GST will remove the custom duties applicable on exports. The nation's competitiveness in foreign markets will increase on account of lower costs of transaction.

### Conclusions

Taxation system is very important for the economy because they maintain equity of income group. Consumption and productions of goods and services undeniably rising and because of multiplicity of taxes in current tax system organization complexities and conformity cost is also increasing. Accordingly, a simplify user -friendly and transparent tax system is required.

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