

IMPACT OF GST ON THE INDIAN ECONOMY

***DR. ANIL KUMAR JHA, **RAJIV RANJAN & *** PAPPU KUMAR SINGH**

**Assistant Professor, Dept of Commerce, MLSM College, Darbhanga*

***Research Scholar, P.G. Dept of Commerce & Bus. Adm., L.N.Mithila University, Darbhanga*

****Research Scholar, P.G. Dept of Commerce & Bus. Adm., L.N.Mithila University, Darbhanga*

INTRODUCTION

GST the biggest tax reform in India founded on the notion of “one nation, one market, one tax” is finally here. The moment that the Indian government was waiting for a decade has finally arrived. The single biggest indirect tax regime has kicked into force, dismantling all the inter-state barriers with respect to trade. The GST rollout, with a single stroke, has converted India into a unified market of 1.3 billion citizens.

On 1 July, India ushered in the biggest post-independence tax reform with euphoria coupled with anxiety.

GST: THE SHORT TERM IMPACT:

From the viewpoint of the consumer, they would now have pay more tax for most of the goods and services they consume. The majority of everyday consumables now draw the same or a slightly higher rate of tax. Furthermore, the GST implementation has a cost of compliance attached to it. It seems that this cost of compliance will be prohibitive and high for the small scale manufacturers and traders, who have also protested against the same. They may end up pricing their goods at higher rates.

WHAT THE FUTURE LOOKS LIKE:

Talking about the long-term benefits, it is expected that GST would not just mean a lower rate of taxes, but also minimum tax slabs.

Countries where the Goods and Service Tax has helped in reforming the economy, apply only 2 or 3 rates – one being the mean rate, a lower rate for essential commodities, and a higher tax rate for the luxurious commodities. Currently, in India, we have 5 slabs, with as many as 3 rates – an integrated rate, a central rate, and

a state rate. In addition to these, cess is also levied. The fear of losing out on revenue has kept the government from gambling on fewer or lower rates. This is very unlikely to see a shift anytime soon; though the government has said that rates may be revisited once the RNR (revenue neutral rate) is reached.

WHAT WILL GET COSTLIER IN THE GST REGIME?

With GST in place the following will get costlier:

- a. Accommodation in hotels would attract 28% GST where the room tariff is more than Rs 7,500 per unit per day
- b. Air-conditioned restaurants serving/not serving liquor would attract GST at the rate of 18%
- c. Renting of a motor car would attract GST at the rate of 18%
- d. Under-construction immovable property being flats, commercial buildings, etc., would attract GST at the rate of 18% after allowing deduction of land value to the extent of one-third of the total amount of immovable property
- e. Commercial renting of immovable property would attract GST at the rate of 18%

HOW WILL GST IMPACT THE INDIAN ECONOMY?

1. Reduces tax burden on producers and fosters growth through more production.
2. Different tax barriers, such as check posts and toll plazas, lead to wastage of unpreserved items being transported.
3. 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.
4. 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.

BENEFITS OF GST TO THE INDIAN ECONOMY:

1. Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise.
2. Less tax compliance and a simplified tax policy compared to current tax structure.
3. 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.
4. Increased demand and consumption of goods.

5. Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check.
6. Boost to the Indian economy in the long run.

REAL IMPACT OF GST

The real Impact of GST to the Consumer and business are long term and can be stated as follow:

1: Merger of Taxes:

At present, there are a large number of taxes at central and state level. They shall all be merged and become one GST as shown in figure.

2: One Law One Country:

At present, you have multiple central laws and state laws for taxations. If you are trading your goods at all India level, you must know and follow all the different laws of India. It is due to this reason that many people avoid trading goods in different states. Once GST is implemented.

3: Increased Input Credit:

At present, input credit is not available for inter-state sales of goods. This would now be available under GST regime. Thus the next tax liability to businesses would come down.

4: More Export Incentive:

An exporter presently gets the refund/drawback on mostly the central taxes. Now they shall be able to get the refund/drawback of State taxes as well. This will boost export.

CONCLUSION:

GST Stands for Good and Service Tax. It was first initiated in 1986 by Prime Minister Vishwanath Pratap Singh 7th of India. After that in 2007, the current government proposed to implement GST and presented the same in Lok Sabha in 2011. In Dec 2014 GST again presented in Lok Sabha and in same is passed in 2015. After approval of Rajya Sabha same is called as 101th amendment of the Constitution. And GST is rolling out from 1 July 2017. After the passage of 25 years of economic reforms in the indirect taxes is going for a revolutionary change in the form of GST is a historical milestone In the Indian economy.

We find, that the GST is expected to rise overall Indian welfare and is projected to be an inclusive policy in that it would be welfare improving for all Indian states. Furthermore the model suggests that the GST would lead to real GDP gains of 4.2 percent under the baseline assumptions driven by a surge in manufacturing output. We also find that the distribution of goods across tax rate tiers matters for the growth outlook. As more goods move to the upper tiers, the real GDP and manufacturing output going would be dampened.

REFERENCES:

1. Alder.S. (2017) "Chinese Roads in India The effect of transport Infrastructure in Economic Development" Working paper.
2. Business standard–What is GST how is it different from now.
3. Eaton J. and S. Kertum (2002) Technology Geography and Trade – 1779.
4. GST rollout: List of items exempted from taxation". The Indian Express. 2017
5. Mehra, Puja (27 June 2017). "GST, an old new tax". July 2017.
6. The Indian Express, 5 July 2017- What is the GST impact on real estate.
7. VAN Leemput. E (2016) "A Passage of India" Quantifying Internal and external Barriers to trade International Finance discussion paper. 1185.