Vol 7 Issue 2 Nov 2017

ISSN No : 2249-894X

Monthly Multidisciplinary Research Journal

# Review Of Research Journal

**Welcome to Review Of Research**

**RNI MAHMUL/2011/38595** **ISSN No.2249-894X**

Review Of Research Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial Board readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.



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REVIEW OF RESEARCH

ISSN: 2249-894X
IMPACT FACTOR : 5.2331(UIF)
VOLUME - 7 | ISSUE - 2 | NOVEMBER - 2017

# STUDY ON GOODS AND SERVICE TAX (GST ) AND INDIAN ECONOMY


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**ABSTRACT: -**

*GST (Goods & service tax) has come into effect across the nation on 1st April 2017. Presently, there are around 160 countries that have implemented GST. France was the first to introduce GST. As invention of the internet has created economics of scale for all types of business by reducing cost ; time ,improves communication ; speed up operation , Implementation of GST will also created economics of scale to whole nation by removing tax barriers, improves business transactions to foreign countries, increases production & efficiency too. It will expand trade and commerce. GST will have favorable impact on organized logistic industry and modernized warehousing. This paper presents an overview of Indian economy, how growth of an economy increases the revenue of Govt.. Negative aspects of various types of taxes, GST concept, its needs & benefits. This is a conceptual study it is supported more by facts than by numerical data.*

**KEYWORDS:** *Indian Economy, Tax revenue, GST.*

## 1. INTRODUCTION :

The Indian economy has the potential to become the world's 3rd largest economy by the next decade. The fastest-growing part of the economy are IT services, BPO services, software services, IT industry, The Indian auto mobile industry, E-Commerce markets. Stock exchanges.[1] As invention of the internet has created economics of scale for all types of business by reducing cost, time, improve communication ; speed up operation , Implementation of GST will also created economics of scale to whole nation by removing tax barriers, improves business transactions to foreign countries, increases production & efficiency too. Growth of our economy will raises tax revenue of the Govt.. Indirect taxes creates many issues in tax regime. So, Govt. is implemented GST in India.

## 2. REVIEW OF LITERATURE

Following review has been extracted from National and International repute journal. It is best source to know the positive and negative side of GST. Along with it will help to understand what exact GST and its future outcomes.

GST not just a tax reform, but also as a transnational driving benefices as said his interview in Times of India by Martin Lundsledt, President and CEO, Volve Group (by TV Mahalingam, ET Bureau/15/2017 1.52 am) He mentioned that the Indian market place is maturing and discussions are happening on uptime fuel economy, renewable fuels, hybridization & using differen tmeans of transportation , including waterways & highways.

Article published in newspaper Economic Times titled "budget 2015: Implementation of GST on April 2016,a reality or mirage" The Union Finance Minister Mr. Arun Jaitly mentioned that GST will be a game changing reform which will be implemented by 1st April 2016. GST will add buoyancy to our economy by developing a common Indian market & reducing the cascading effect on the cost of goods &services. (by Bipin Saora, partner- Tax &regulatory services-Indirect Tax, EY India. According to CA Madhukar N. Hiregange & CA Ravi Kumar Somani (Article written on 26th Dec. 2016). Concluded that the tax system is in the transitional phase, hence this is the right time for businesses to understand the immediate points for smooth implementation of the GST. This article provide major area action point as creating a core GST team , performing GST impact analysis, migrate the registration, transit of credits into new regime etc. as per the International journal of accounting & economics, (2017), Mr Venkataraman subramanya (mangalore University, India), concluded in his topic the impact of taxation on economic growth in India: that economic growth is susceptible to the kind of tax used and hence policy makers should pay attention to the kind of tax to be used, in the attempt to attain long term. Opinion on GST IN INDIA: A KEY TAX REFORM by Monika Sehrawat &, Upasana Dhanda (Dec. 2015) studied an overview of GST concept, explains its features along with its timeline of implementation in India. The paper is more focused on advantages of GST and challenges faced by India in execution

## 3. OBJECTIVES OF THE STUDY:

The following objectives are designed for this research study.

1. To analyze the impact of economic growth in Indian Economy
2. To study the negative aspects of preevious tax system.
3. To understand GST, its need and benefits.

## 4. HYPOTHESIS:

On the basis of review of literature and available literature on GST , following a hypothesis has been articulated

1. The implementation of GST will be beneficial for our economy.

## 5. GROWTH IN INDIAN ECONOMY:

Despite of existence of multiple taxes like Excise, Customs, Education Cess, Surcharge,VAT, Service Tax etc. GDP of India is much lower than GDP of countries like USA, China and Japan. India has miles to go to achieve this level.

**Table No: 1: Top Ranking (GDP )**

| GDP of Nations | G.D.P. in trillion US.Dollars | | |
|---|---|---|---|
| | **2010** | **2017** | **2030 & 2050 (projected)** |
| U.S.A. | 14.58 | 18.03 | 23 & 34 |
| China | 5.87 | 11 | 26.5 & 49.8 |
| Japan | 5.5 | 4.38 | 5.5 & 6.7 |
| Germany | 3.309 | 3.36 | 4 & 6.1 |
| UK | 2.246 | 2.26 | 3.5 & 5.3 |
| France | 2.560 | 2.42 | 3 & --- |
| Italy | 2.05 | 1.82 | 2 & --- |
| Canada | 1.574 | 1.55 | --- & --- |
| India | 1.729 | 2.09 | 7.8 & 28 |

**Source:** World Development Indicator data base, World Bank 28 April 2017 & April 2010 & World Bank historical list of ten largest countries by GDP

The GDP is one of the primary indicators used to gauge the health of a country's economy. India's GDP Growth unexpectedly slows. It is the lowest Growth rate as compared to USA , China. Due to drop in investment, following the demonetization program started in Nov. 2016 that removed 86% of India's currency in circulation. In addition the Govt. changed the GDP base year 2011-12 from 2004-05. USA still is the world biggest economy & it is almost 16 points ahead from India .

The Economic Survey 2016-17, was tabled in the Parliament on January 31, 2017, by Mr Arun Jaitley, Union Minister for Finance, Government of India. The Survey forecasts a growth rate of 6.75 to 7.5 per cent for FY18, as compared to the expected growth rate of 6.5 per cent in FY17. Over the medium run, the implementation of the Goods and Services Tax (GST), follow-up to demonetization, and enacting other structural reforms will increase GDP growth of 8 percent to 10 percent.

The services sector is projected to grow at 8.8 per cent in 2016-17. As per World Trade Organization data, India's commercial services exports increased from US$ 51.9 billion in 2005 to US$ 155.3 billion in 2015, taking its share in global services exports to 3.3 per cent in 2015 from 3.1 per cent in 2014. In terms of growth in tourism sector, during January to December 2016, Foreign Tourist Arrivals (FTAs) were 8.9 million with growth of 10.7 per cent and foreign exchange earnings (FEE) were at US$ 23.1 billion with a growth of 9.8 percent. '[2]

## 6. ECONOMIC GROWTH INCREASES REVENUE OF GOVT.:

Economic growth is often the key driver of tax revenues. For economic growth, we can limiting taxes on economic factors namely investment. This means reducing tax rates on businesses, mitigate cascading, limiting the multiple or double taxation of investment created by taxing corporate income at both the entity level (corporate tax) and the shareholder level (capitals gains and dividend taxes). [3]

## 7. NEGATIVE ASPECT OF PREVIOUS TAX REGIME:

Indirect taxes have some disadvantages. Which are as follows:

**A. Cascading effect:** The main objective of any taxation in any part of the world is obviously not to levy tax on taxes. In India, taxes are multi-layered as the central Government levies taxes like excise duty, service tax and central sales tax and State governments levies taxes like VAT/sales tax, entry tax, state excise, octroi etc.[4]

**B. Double taxation.** The central challenge is between customs duties and excise duties on the one hand, customs duties and service taxes on the other. It is also between excise taxation and service taxation and hence also another manifestation of the central challenge referred to above. In goods taxation and service taxation a transaction is either a sale or supply of goods and hence charged to the appropriate goods tax i.e. State VAT, or a provision of services and hence appropriately chargeable to service tax. [5]

**C. Multiple taxation.** There are multiplicity of taxes on goods and services. Excise duty on manufacture, customs duty on imports and On the other hand, VAT, Entry Tax, Purchase Tax, Octroi and duty on liquor are levied by the State governments. Apart from this, there are various other taxes /levies such as cusses, surcharges, entertainment tax, luxury tax, stamp duty and road tax. Such multiplicity of taxes distorts the tax structure and brings in complexities.

**D. Regressive:** Indirect taxes are not equitable. For instance, salt tax in India fell more heavily on the poor than on the rich, as it had to be paid at the same rate by all. Whether a rich man buys a commodity or a poor man, the price in the market is the same for all.

The tax is wrapped in the price. Hence, rich and poor pay the same amount, which is obviously unfair. They are thus; regressive.

**E. Uncertain:** Unless indirect taxes are imposed on necessaries, we cannot be sure of the revenue yield. In the case of goods, with an elastic demand, the tax might not bring in much revenue. The tax will raise the price and contract the demand. When the thing is not purchased, the question of the tax payment does not arise.

**F. No Civic Consciousness:** These taxes do not develop civic consciousness, because many times the tax-payer does not even know that he is paying tax. The tax is concealed in the price.

**G. Harmful to Industries:** They discourage industries if raw materials are taxed. This will raise the cost of production and impair their competitive capacity. [6]

**8. Concept of GST:**

GST is an indirect taxation in India merging most of the existing taxes into single system of taxation. Amalgamating several Central and State taxes into a single tax would mitigate cascading or double taxation & facilitating a common national market. The simplicity of the tax should lead to easier administration and enforcement of a transparent, simple, efficient, one-nation system. It is set up by president under article 279A. It is chaired by union finance minister. The power of making law on taxation of goods and services lies with both union and state legislative assemblies. IGST is levied on supplies in the course of interstate trade inducing imports which is collected by central government exclusively and distributed to imported states as GST is destination based tax. The proportion of distribution between center and states is decided on recommendation of GST Council. [7]

**9. NEED TO INTRODUCE GST IN INDIA:**

• To eliminate the cascading effect of all indirect taxes in valuation of goods & services. it will replace all existing taxes including service tax.
• GST is capable of generating a more stable source of revenue to the nation because it is less susceptible to economic fluctuations.
• There will be a single base for computation of tax for both central government and state government.
• No GST will be levied on exports because of which input credit of exporter will not be affected and he/she can use these input credit in future. With zero rated exports, domestic goods will be more competitive in international market and will help in increasing exports which in turn the fulfillment of objective of 3.5% share of India in world exports by 2020.
• The tax structure will be hoped much simpler and easier to interpret ate. Reduction in the accounting complexities for business will make the manufacturing sector more competitive and boost the economy.
• Improve standard of living.
• Lower cost of doing business.
• Nation building: Fairness & Equality, Enhanced Delivery System, Increase Global, Competitiveness Enhance Compliance, Fair Pricing to Consumers, Greater transparency etc everybody gains from GST. [8]

**10. BENEFITS OF GST:**

It is expected that GST will bring a number of benefits to the:

**Indian economy:**

a) Dual monitoring by the center & states to reduce tax evasion.
b) Better compliance through real time matching of supplier & purchaser.
c) Reduction in approximately Rs1.8Lakh Crore annual loss due to excise duty exemptions.
d) Cut in Rs.1.5 Lakh Crore estimated loss to states due to tax exemptions

**Companies:**

a) Tax credits to lower tax burden, improve profit margin for some.

b) No distinction between product and service for tax.
c) Uniform tax access the country to ease business.
d) Smooth movement of products across states.
e) One time increase in compliance cost likely.

**Consumer:**

a) No tax rates have yet been decided through a suggestion of 3 rates -12% ,17-18% and 40% has been made.
b) Most products are likely to be less expensive over time.
c) Most services (e.g. restaurants, travel, mobile bills, insurance premium) likely to cost more.
d) Mobiles, jewellery, some readymade wear in some states may cost more.[9]

## 11. Challenges

Introduction of GST requires amendments in the Constitution of India and consensus between Central and States Governments on variety of issues like, basic threshold, exemptions, administration etc. At present, the States do not have the powers to levy tax on supply of services and the Centre does not have the power to levy tax on the intra-State sale of goods. The Constitution will be amended when this Bill gets passed by 2/3rd majority in Rajya Sabha too and thereafter gets ratified by at least 50% of the State Legislatures and finally gets the assent of the President of India.[10]

Basic design issues: Specific issues like threshold limits for goods and services, exemptions, definition of supply, determining the place of supply of goods and services, transition provisions for existing exemptions etc. need to be carefully identified, analysed and appropriately addressed when GST is firmed up.

IT Infrastructure: The process of tracking inter State transactions will be extremely complex and will require an infallible IT system. The clearing house mechanism envisaged in the dual model GST will handle humungous data. Designing and developing an IT infrastructure of such a size and complexity will be a exceptional task. For this purpose, a Special Purpose Vehicle (SPV) called the Goods & Service Tax Network has been set up by the Government to create enabling environment for smooth introduction of GST[11]

Tax administration: The Central Board of Excise and Customs (CBEC) and the State tax administrations will be responsible for implementing CGST and SGST respectively. For implementing dual GST, a strong and integrated tax administration will be required. Any sort of risk management system will give meaningful results only when there will be an efficient tax administration. An inefficient tax administration will not be able to provide the necessary level of deterrence which may ultimately lead to non-compliance and under performance of the tax regime. It may be noted that the Joint Committee on Business Process for GST released four reports on GST payment process, GST registration, GST refund , GST return.[12]

Revenue Neutral Rate (RNR): At present States are charging VAT @ 0%, 1%, 5%, 12.5%/13.5% and 20% besides other levies. Similarly, Centre is charging central excise duty @ 12.5%, CST @ 2%, service tax @ 14%. RNR rates are a point of debate and will be one of the final issues for consensus between the Empowered Committee and the Centre.[13]

## 12 .CONCLUSIONS:

GST would definitely solve the misleading impression related to indirect taxation. It is the attempt to justify taxation system with more logical reasons having a unified vision in terms of goals and strategic direction. It provides a global tax system having clone rules, laws, provisions for whole nation that is almost similar to rest of the world. It would definitely increases revenue of Govt. as well as investment / business from outside countries. China implemented GST in 1994 having 8th position in world's largest economy. In 2017( in 24 years) it comes on 2nd position. India's economy is growing in speed as it will stands on 3rd position in preceding ten decades.

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