



A study on impact of GST on Indian economy

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Abstract

Goods and Service Tax (GST) is a full tax charge on manufacture, sales and expenditure of goods and services. The fundamental aim of GST is to make uniform the scattered indirect tax system in India and avoid the cascading effect in taxation. The impact going to make by GST will be a transformation in the entire tax system in India. GST is termed as biggest tax reform In Indian Tax Structure. It will not be an additional tax, it will include central excise duty, service tax additional duties of customers at the central level, VAT, central sales tax, entertainment tax, octroi, state surcharge, luxury tax, lottery tax and other surcharge on supply of goods and services. The purpose of GST is to replace all these taxes with single comprehensive tax, bringing it all under single umbrella. The purpose is to eliminate tax on tax. This paper will throw light on GST its features and also effect of GST on prices of goods and Services.

Keywords

Goods and Service Tax (GST), VAT, central sales tax, entertainment tax, octroi, state surcharge, luxury tax.

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1. Introduction

The word tax is derived from the Latin word “taxare” meaning “to estimate”. “A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority” and is any contribution imposed by government whether under the name of levy, tribute, impost, duty, custom, excise, subsidy, supply, or other.” The first known system of taxation was in Ancient Egypt around 3000 BC - 2800 BC in the first empire of the Old Kingdom. Records from that time showed that the pharaoh were collecting tax revenues from the people. Other records are granary receipts on limestone flakes and papyrus. Early taxation is also described in the Bible. The crop comes in, gives a fifth of it to Pharaoh. The other four-fifths portions may keep as seed for the fields and as food households and children. The people of Egypt divided their crop, providing a portion to the Pharaoh. A share of the crop was the tax. In India, the tradition of taxation

has been in force from ancient times. It finds its references in many ancient books like ‘Manu Smriti’ and ‘Arthashastra’. The Islamic rulers imposed Jizya. It was later on abolished by Akbar. However, Aurangzeb, the last prominent Mughal Emperor, levied Jizya on his mostly Hindu subjects in 1679. Reasons for this are cited to be financial stringency and personal inclination on the part of the emperor, and a petition by the Ulema. The period of British rule in India witnessed some remarkable change in the whole taxation system of India. Although, it was highly in favor of the British government and its exchequer but it incorporated modern and scientific method of taxation tools and systems. In 1922, the country witnessed a paradigm shift in the overall Indian taxation system. Setting up of administrative system and taxation system was first done by the Britishers. Broadly, there are two types of Taxes viz. Direct and Indirect taxes. Taxes in India are levied by the Central Government and the State Governments. Other minor taxes are also levied by the local authorities such as Municipality or Local Council or Grampanchayat. In India various taxes are levied by the Central Government body and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. There are various levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State. Some of the important Central taxes, eg. CENVAT, Customs Duty, Service Tax etc. Some of the important State level taxes, eg. State Sales Tax, CST, Works Contract Act, Entry tax, other local levies etc. The taxes on

the sales of goods were levied in situation of the respective Sales Tax enactments and the 'entry of goods' was subject to tax under the respective State Entry Tax enactments and this development prevailed till the improvement process set in upon which these levies were replaced by VAT. The levy of tax on provisioning of services was introduced for the first time in 1994 and has been subjected to persistent vigorous legal challenges. From long time it is proved in India that the transformation to VAT did not solve the issue of non-creditable duties and the consequent cascading effect requiring further reform in the structure in the area and consequently GST demand arose. 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.

2. Review of Literature

1. Benedict, (2011) The author studies the law provisions dealing with financial services under the Australian GST law with the intention to verify whether the provisions have been construed correctly in light of the original purpose of the legislation and how the concerns identified may be rectified.
2. Ciobanasu (2012) The authors trace the correlation between the types of taxes and their role in the budgeted revenues and the fiscal development of Romania. Indirect tax by its very nature is easier to govern, is neutral to status of tax payer, and increases revenue but leads to inflation. On the other hand direct taxes depend on the tax payer and are difficult to govern. Further, indirect tax helps the government to an extent to direct consumption of the public. The authors conclude that both the taxes are important for overall growth of the economy.
3. Bikas, (2013) The authors have studied the VAT rate and the EU economy and also the link between the VAT and macroeconomic indicators and their influence on the VAT rate. The authors conclude that there is a positive relation between macroeconomic indicators like GDP, per capita income and consumption, export, import etc and the VAT rate applicable.
4. Borec, (2013) The authors have discussed how assessee may comply with the VAT laws given that the GST is a destination based tax. The authors mainly deal with B2C cases where the VAT compliances would need to be done in the state where the customer is located. The authors have discussed the difficulties in this compliance especially in the e commerce transactions.

3. Objectives

1. To study the concept of Goods and Services Tax (GST) and its impact on Indian Economy,
2. To understand how GST will work in India like developing country and
3. To know the advantages and challenges of GST in Indian situation..

4. Research Methodology

The study focuses on wide study of secondary data collected from various books, National & international Journals, published government reports, publications from various websites which focused on various aspects and important of Goods and Service tax.

5. Findings

- Present tax system allows is diversity of taxes,
- the introduction of GST is likely to unique it. Many areas of Services which are untaxed. After the
- introduction of GST they will also get covered. GST may help to avoid confusions caused by present
- complex tax structure and will help in development of a common national market. Excise, VAT, CST have the cascading effects of taxes.
- Therefore, there will be end up in paying tax on tax. GST will replace existing all present taxes. GST will lead to credit availability on throughway
- purchases and reduction in obedience requirements. Applying of GST will do more than simply redistribute
- the tax burden from one sector or Group in the economy to another. Achieves, uniformity of taxes across the territory,
- regardless of place of manufacture or distribution. Provides, greater certainty and transparency of taxes.
- Ensures tax compliance across the country
- GST will avoid double taxation to some extent.
- The effective implementation of GST makes sure that
- India provides a tax system that is almost similar to the rest of world where GST implemented. GST will also improve the International level cost
- competition of various native Goods and Services. GST will provide impartial tax structure that is neutral to
- business processes and geographical locations within India. If the GST is implemented in the true spirit, it will have
- many positives effects for the stakeholders and will lead to a better friendly tax environment.



6. Conclusion

The GST System is basically restructured to simplify current critical Indirect Tax system in India. A well designed GST is an attractive method to get liberate of deformation of the existing process of multiple taxation also government has promised that GST will reduce the compliance burden at present there will be no price different between imported goods and Indian goods & they would be taxed at the same rate and also prices will be same. Many Indirect Taxes like Sales Tax, VAT, service tax etc., will be diminished because there will be unique tax system i.e. GST, that will reduce observance present burden. GST will face many challenges after its implementation and will result to give many benefits. In overall through above important study we conclude that GST play a dynamic role in the growth and development of our country.

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