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Impact of Goods and Services Tax on Indian Economy

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ABSTRACT :

GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 but is yet to be ratified by the Rajyasabha. However, there is a huge hue and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country.

KEYWORDS: Goods and service tax; Indian economy

INTRODUCTION:

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, which is currently estimated at 25-30%.

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^[1]. 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.

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^[2].

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. The current system taxes production, whereas the GST will aim to tax consumption.

Experts have enlisted the benefits of GST as under:

- It would introduce two-tiered One-Country-One-Tax regime.
- It would subsume all indirect taxes at the center and the state level.
- It would not only widen the tax regime by covering goods and services but also make it transparent.
- It would free the manufacturing sector from cascading effect of taxes, thus by improve the cost-competitiveness of goods and services.

अनुक्रमणिका			
अ.क्र.	प्रकरण	संशोधक	पृष्ठ क्रं.
1	Indian Sensibility in Nissim Ezekiel's Poetry	Dr. S.L.Wankhede	1-4
2	Science : The Source To Achieve Utopian Reality	Pawar Sharad Subhashrao Dr. Swapna C. Vyawahare	5-9
3	Foresight of Maharaja Sayajirao Gaekwad Regarding Education and Social Reforms Reflected in his Speeches and Addresses	Dr. Sunanda S. Shelake	10-13
4	Problems And Prospects Of Scheduled Tribes In Maharashtra	Mr. Tukaram Bhivsen Jadhav	14-17
5	The Status Of Issue Rights To Education During Covid-19 Pandemic	Prof. Dr. Dattatraya S. Tambe	18-24
6	Impact of Goods and Services Tax on Indian Economy	Bhurke Gajanan Amruta	25-27
7	Maharashtrian Folk Music	Mr.Prashant V. Nandanvare	28-30
8	Importance of Cycling	Sathe Sanjay Sadashiv	31-32
9	Peasants Movement in India an Economical Approach	Prof. Dr. Sawargaonkar Shankar Laxmanrao	33-37
10	Spots and Economy	Thorat Sainath Dattatray	38-40
11	Benefits of Yoga for College Going Youth	Lt.Dr.Nirajkumar N. Uplanchwar	41-43
12	महात्मा जोतिबा फुले यांचे स्त्री विषयक विचार व कार्य	श्री.अय्युबखान समशेरखान पठाण	44-46
13	महात्मा गांधी यांच्या विषयी प्रासंगिकता	डॉ.डिगोळे बालाजी विठ्ठलराव	47-54
14	आदिवासी साहित्यातील स्त्री दर्शन	डॉ.के.एन.सोनवणे	55-61
15	जात्यावरील आईवडील विषयक ओवीगीतातील दर्शन	डॉ.सुशीलप्रकाश चिमोरे	62-66
16	'आठवणीचे पक्षी' मधील प्र.ई. चे व्यक्तिचित्र	डॉ. अविनाश श. धोबे	67-71
17	आदिवासी आयकॉन्स : स्वरूप व आकलन	डॉ. व्ही.एस. केदारी	72-74
18	सत्यशोधक जलशाचे प्रयोजन आणि आशय	प्रा.डॉ.बाळासाहेब गावडे	75-77
19	आई विषयक कवितेतून नीतिमूल्यांची उधळण	प्रा.डॉ. संजय बाबुराव खाडप	78-81
20	वामन कर्डक यांच्या लोकगीतांतील परीवर्तनवादी अविष्कार रूपे	प्रा.डॉ. लहू दिगंबर वाघमारे	82-89
21	बहिणाबाई चौधरी यांच्या कवितेतील स्त्रीजीवन	श्री. मधुकर बालासाहेब जाधव	90-91
22	"अशोक कौतिक कोळी आणि त्यांचे काव्य लेखन"	प्रा. डॉ. राजीव वैजनाथराव यशवंते पालंचेवार पोतन्ना गंगन्ना	92-95
23	नवदोत्तर आदिवासी कादंबरीतील स्त्री शोषणाचे आकलन	डॉ. राजेंद्र ठाकरे श्री. अनिल मोतीलाल वळवी	96-101
24	महाराष्ट्राच्या लोकसंस्कृतीत शाहीर विठ्ठल उपम व इतर काही लोककलावंतांची योगदाने	संजय साहेबराव जाधव	102-107
25	मराठी साहित्यातील 'भारुड' वाङ्मय संकल्पना	डॉ. सुभाष भगवान देशमुख	108-112

- It would bring down the prices of goods and services and thus by, increase consumption,
- It would create business-friendly environment, thus by increase tax-GDP ratio.
- It would enhance the ease of doing business in India.

WHY NO TO GST?:

However, the question is: is the picture as rosy as it is portrayed? Wall Street firm Goldman Sachs, in a note 'India: Q and A on GST-Growth Impact Could Be Muted', has put out estimates that show that the Modi Government's model for the Goods and Services Tax (GST) will not raise growth, will push up consumer prices inflation and may not result in increased tax revenue collections^[3].

There appears to be certain loopholes in the proposed GST tax regime which may be detrimental in delivering the desired results. They are:

India has adopted dual GST instead of national GST. It has made the entire structure of GST fairly complicated in India. The centre will have to coordinate with 29 states and union territories to implement such tax regime. Such regime is likely to create economic as well as political issues. The states are likely to lose the say in determining rates once GST is implemented. The sharing of revenues between the states and the centre is still a matter of contention with no consensus arrived regarding revenue neutral rate.

The proposed GST structure is likely to succeed only if the country has a strong IT network. It is a well-known fact that India is still in the budding state as far as internet connectivity is concerned. Moreover, the proposed regime seems to ignore the emerging sector of e-commerce. E-commerce does not leave signs of the transaction outside the internet and hence anonymity associated with it. As a result, it becomes almost impossible to track the business transaction taking place through internet which can be business to business, business to customer or customer to customer. Again, there appears to be no clarity as to whether a product should be considered a service or a product under the concept of E-commerce. New techniques can be developed to track such transactions but until such technologies become readily accessible, the generation of tax revenue from this sector would continue to be uncertain and much below the expectation. Again E-commerce has been insulated against taxation under customs duty moratorium on electronic transmissions by the WTO Bali Ministerial Conference held in 2001^[4].

Chief Economic Advisor A. Subramanian on 4 December 2015 suggested GST rates of 12% for concessional goods, 17-18% for standard goods and 40% for luxury goods which is much higher than the present maximum service tax rate of 14%. Such initiative is likely to push inflation.

The proposed GST regime intends to keep petroleum products, electricity, real estate and liquor for human consumption out of the purview of GST. It is a well-known fact that petroleum products have been a major contributor to inflation in India. Inflation in India depends on how the government intends to include petroleum products under GST in future.

Electricity is essential for the growth and development of India. If electricity is included under standard or luxury goods in future then it would badly affect the development of India. It is said that GST would impact negatively on the real estate market. It would add up to the cost of new homes and reduce demand by about 12%. The proposed GST regime "would be capable of being levied on sale of newspapers and advertisements therein"

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Communication is considered to be necessity and one cannot do without communication.

In modern times, communication has assumed the dimension of telecommunication.

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The proposed GST regime appears to be unfavourable for telecommunication sector as well "One of the major drawbacks of the GST regime could be the direct spike in the service tax rate from 14% to 20-22%" (GST: Impact on the Telecommunications Sector in India). The proposed GST appears to be silent on whether telecommunication can be considered under the category of goods or services. The entire issue of telecommunication sector assumes a serious proportion when India's rural teledensity is not even 50% [5].

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This would give the governments the access to substantial incremental revenues since this industry has historically been tax free in its entirety" [6]. It sounds ridiculous but the provision of GST is likely to make the supervision of operations by its Board/senior managers across the company's offices in different parts of the country a taxable service by allowing each state to raise a GST demand on the company.

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Again there appears to be lack of consensus over fixing the revenue rate as well as threshold limit. One thing is for sure, services in India are going to be steeply costly if GST is fixed above the present service tax rate of 14% which in turn will spiral up inflation in India. "Asian countries which implemented GST all had witnessed retail inflation in the year of implementation" [7].

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CONCLUSION:

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The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime.

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