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**GST : As Game Changer For The Indian Economy & Economics Growth**

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Tax is money that people have to pay to the government. The government uses the money it gets from taxes to pay for things. For example, taxes are used to pay for people who work for the government, such as the military and police, provide services such as education and health care, and to maintain or build things like roads, bridges and sewers. Different kinds of taxes are available in our country like corporate taxes, income taxes, sales taxes, property taxes, inheritance or estate taxes. Taxes are also usually split into 3 groups.

- Flat taxes: Everybody pays the same percentage. Russia has a flat income tax and everybody in Russia has to pay 13% of the income.
- Progressive taxes: The more money a person makes the higher percentage of their income they have to pay. Most countries have progressive income taxes.
- Regressive taxes: The less money a person makes the higher percentage of their income they have to pay. Sales taxes are usually called regressive as poor people spend a higher percentage of their money, than rich people.

Often because different parts of governments use taxes for different things, people end up paying lots of taxes. In the United States, for example, the national government has an income tax; most states have an income tax or a sales tax, or both; and cities and towns may have a sales tax or a property tax. In some states such as Ohio, the sales tax is different in each county. In ancient times, people from one city or area would attack another place, and make the people there pay *tribute*. Tribute meant that the attacked people would pay money (or other things), and the attacker would stop attacking them. A famous tribute was the Danegeld, when people from Denmark conquered part of England and made the English pay thousands of silver coins. Now in these days GST plays important role for Economic growth.

**What is GST?**

Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition.

To understand this, we need to understand the concepts under this definition. Let us start with the term 'Multi-stage'. Now, there are multiple steps an item goes through from manufacture or production to the final sale. Buying of raw materials is the first stage. The second stage is production or manufacture. Then, there is the warehousing of materials. Next, comes the sale of the product to the retailer. And in the final stage, the retailer sells you – the end consumer – the product, completing its life cycle. Actually It has been long pending issue to streamline all the different types of indirect taxes and implement a "single taxation" system. The main expectation from this system is to abolish all indirect taxes and only GST would be levied.

GST was first introduced during 2007-08 budget session. On 17<sup>th</sup> December 2014, the current Union Cabinet ministry approved the proposal for introduction GST Constitutional Amendment Bill. On 19<sup>th</sup> of December 2014, the bill was presented on GST in Loksabha. The Bill will be tabled and taken up for discussion during the coming Budget session. The current central government is very determined to implement GST Constitutional Amendment Bill.

### **How is GST Applied?**

GST is a consumption based tax/levy. It is based on the "Destination principle." GST is applied on goods and services at the place where final/actual consumption happens. GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain. GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism.

### **Benefits of GST**

The tax structure will be made lean and simple

- The entire Indian market will be a unified market which may translate into lower business costs. It can facilitate seamless movement of goods across states and reduce the transaction costs of businesses.
- It is good for export oriented businesses. Because it is not applied for goods/services which are exported out of India.
- In the long run, the lower tax burden could translate into lower prices on goods for consumers.
- The Suppliers, manufacturers, wholesalers and retailers are able to recover GST incurred on input costs as tax credits. This reduces the cost of doing business, thus enabling fairer prices for consume number of departments (*tax departments*) will reduce which in turn may lead to less corruption.

Goods and Services Tax (GST) aims to make India a common market with common tax rates and procedures and remove the economic barriers, thus paving the way for an integrated economy at the national level. GST is largely technology driven. It will reduce the human interface to a great extent and this would lead to speedy decisions. Goods and Services Tax (GST) aims to make India a common market with common tax rates and procedures and remove the economic barriers, thus paving the way for an integrated economy at the national level. By subsuming most of the Central and State taxes into a single tax and by allowing a set-off of prior-stage taxes for the transactions across the entire value chain.

### **Major Benefits:**

- GST is largely technology driven. It will reduce the human interface to a great extent and this would lead to speedy decisions.
- GST will give a major boost to the 'Make in India' initiative of the Government of India by making goods and services produced in India competitive in the National as well as International market. Also all imported goods will be charged integrated tax (IGST) which is

equivalent to Central GST + State GST. This will bring equality with taxation on local products.

- GST is expected to bring buoyancy to the Government Revenue by widening the tax base and improving the taxpayer compliance. GST is likely improving India's ranking in the Ease of Doing Business Index and is estimated to increase the GDP growth by 1.5 to 2%.
- GST will bring more transparency to indirect tax laws. Since the whole supply chain will be taxed at every stage with credit of taxes paid at the previous stage being available for set off at the next stage of supply, the economics and tax value of supplies will be easily distinguishable. This will help the industry to take credit and the government to verify the correctness of taxes paid and the consumer to know the exact amount of taxes paid.
- The taxpayers would not be required to maintain records and show compliance with a myriad of indirect tax laws of the Central Government and the State Governments like Central Excise, Service Tax, VAT, Central Sales Tax, Octroi, Entry Tax, Luxury Tax, Entertainment Tax, etc.

#### **Benefits of GST to the Indian Economy**

- Removal of bundled indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise.
- 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.
- Increased demand will lead to increase supply. Hence, this will ultimately lead to rise in the production of goods.
- 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.

#### **How will GST impact the Indian Economy**

- Reduces tax burden on producers and fosters growth through more production. The current taxation structure, , 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.
- The introduction of the Goods and Services Tax will be a very noteworthy step in the field of indirect tax reforms in India. By merging a large number of Central and State taxes into a single tax, GST is expected to significantly ease double taxation and make taxation overall easy for the industries. For the end customer, the most beneficial will be in terms of reduction in the overall tax burden on goods and services. Introduction of GST will also make Indian products competitive in the domestic and international markets.

Overall, GST which is likely to be inflationary would hit people in the lower income group hardest as they currently pay little or no income tax at all. However a number of considerations suggest that the impact would be moderate. Sales tax and service tax component are already hidden in the prices of all commodities and basic items would be largely exempted from GST. Other necessities such as fuel and power, public transport and medical care are concerned, there is sufficient already. GST does not do away with or replace all kinds of taxation. It has just merged just a handful or less different taxes and fused them in one name.

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