

IMPACT OF GOODS AND SERVICE TAX (GST) ON INDIAN ECONOMY

Swati Jain*
Rishi Kant Mittal**

ABSTRACT

The Good and services tax (GST) is the biggest and substantial indirect tax reform since 1947. Once GST is implemented, all these taxes would cease to exist. There would be only one tax, that too at the national level, monitored by the central government. GST is also different in the way it is levied at the final point of consumption and not at the manufacturing stage. At present, separate tax rates are applied to goods and services. Under GST, there would be only one tax rate for both goods and services. The goods and services Tax will indeed be a further significant improvement towards a comprehensive indirect tax reforms in the country. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end distortions of differential treatments of manufacturing and service sector. GST is expected to create a business friendly environment, as price levels and hence inflation rates would come down overtime as a uniform tax rate is applied. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. It will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult. An attempt is made in this paper to study the concept of goods and service tax and its impact on Indian economy. The study also aims to know the pros and cons of GST in Indian scenario.

KEYWORDS: GST, VAT, Indirect Tax and Indian Economy.

Introduction

The proposed GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. Currently, in India complicated indirect tax system is followed with imbrications of taxes imposed by union and states separately. GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST and SGST.

Taxes are the only means for financing the public goods because they cannot be priced appropriately in the market. They can only be provided by governments, funded by taxes .It is important the tax regime is designed in such a way that it does not become a source of distortion in the market or result in market failures. The tax laws should be such that they raise a given amount of revenue in an efficient, effective and equitable manner. Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. It is a domestic trade tax that will be levied in the form of a value added tax on all goods and services -in practice with some exemptions. A

* Former Doctoral Fellow, ICSSR, New Delhi.

** Former Doctoral Fellow, ICSSR, New Delhi.