

ISSN 2581-818X

PRABHUDDHA
JOURNAL OF SOCIAL SCIENCES



Chief Editor

Dr. Chandashekar Sheelvanth

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Dr. I. S. Vidyasagar - Prof. Vijaykumar D.

GST IMPLICATIONS ON
INDIAN ECONOMY



Karnataka People's Education Society's

Dr. Ambedkar College of Arts, Commerce & PG Centre

Darga Road - Kalaburagi - Tel. : 08472-223106

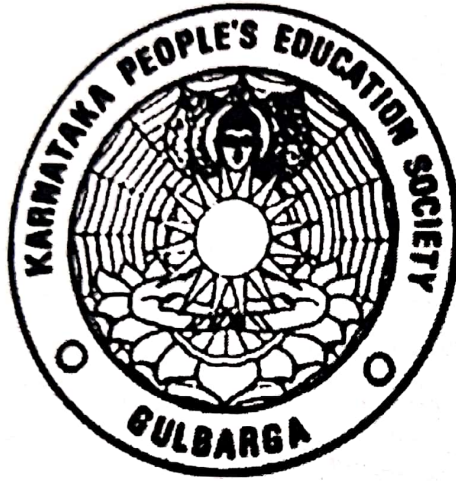


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GST - IMPLICATIONS ON INDIAN ECONOMY

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IMPACT OF GST ON DEMAND AND SUPPLY SIDES OF THE ECONOMY

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ABSTRACT:

The introduction of the goods and Services Tax will be a very timely 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 consumer. For the end customer, the most beneficial will be in terms of reduction in the overall tax burden. On the goods and Services Tax side, the introduction of a GST will also make Indian products more competitive in the domestic and international markets. Last but not least, the GST because of its transparent character will be easier to administer. Once implemented, the proposed taxation system holds great promise in terms of sustaining growth for the Indian economy.

GST was implemented in India on 1 July 2017 and it was the most important policy reform in India since independence. It is a comprehensive reform of the indirect tax system in India where the central government, 29 state governments and nine union territories have reached a unique agreement and an amendment in the constitution was required so that producers of goods and services became liable to pay taxes to central and state government simultaneously. It has removed all structural rigidities and extra burdens on consumers because of cascading of taxes.

This paper throws light on the impact of GST on demand and supply side.

INTRODUCTION

A prudent fiscal policy can Create opportunities and create more equal distribution of income Tax reforms agenda brought by the Modi government aims to in achieve efficiency in allocation of resources for to higher rates of growth of output & employment is across various sectors of the economy and to redistribute income so that every individual in the society has access to a minimal Satisfactory standard of living.

Goods and Service tax (GST introduce as a good and simple tax on 1 July 2017 by the Modi government is the boldest measure of tax reform So far in India.

Meaning of GST

Goods and Service tax is levied on the manufacturing and sales of goods and services across the country. The tax is charged at every. Stage of the manufacturing process GST is applicable for both the Customer and the manufacturer. It is destination-based tax. This means that GST is to be collected at the point of Consumption. So, if a product is manactuled in Bihar and sold in Bhopal the tax will see levied in Bhopal. Moreover at every stage of the manufacturing process where value is added to the product. GST is collected.

The types of GST

The types of cast are as follows

- a) GST & (Central Goods and Service Tax) The tax is collected by the central government on the intrastate sale of goods and services.
- b) SGST : State loads and Service Tax The state government collects this tare based on the intrastate supply of services and product

- c) IGST (Integrated Goods and service tax) The dose is charged on the supply of products and Services between two states the taxes are shared between the central and state governments.

Benefits of GST to the Indian Economy

1. Removal of bundled indirect taxes such as vat, CST, Service tax for CAD, SAD and Excise
2. Less tax Compliance and a simplified tax policy. Compared to current tax Structure
3. Removal of cascading effect of taxes in poor ramous tax on tax
4. Reduction of manufacturing costs due to lower' - burden of taxes on the manufacturing sector1 hence prices of consumer goods will likely to come down
5. Lower the burden on the common man I e public will have to shed less money to been the same products that were costly earlier
6. increased demand and assumption of good
7. increased demand will lead to increase supply Hence, this will ultimately lead to rise in the production of goods
8. Control of black money Circulation as the System normally followed by traders and Shopkeepers will be put to a mandatory check
9. Boost to the Indian economy in the long run There are possible only when the act- has 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.

EFFECTS

GST on the Indian Economy

The implementation of the GST has significantly affected the Indian economy in the following ways.

Simplification of the tax structure: GST has simplified the taxation system of the country. As GST is a single tax calculating taxes at the multiple stages of the supply chain has become easier. Through this, both customers and Manufacturers get a clear idea of the amount for which they are charged and its basis. Further hassles of handling tax officials and authorities can also be avoided.

Fostering production: As per the Indian retail industry, the total tax component is around 30% of the product cost. Due to the impact of GST, the taxes have gone down, so the end consumer has to pay lesser taxes. The reduced burden of taxes has enhanced the production and growth of the retail and other industries.

SME Support : Small and medium enterprises can now register under the composition scheme introduced by GST. Through this scheme, they pay taxes according to their annual turnover. Therefore, businesses having an annual turnover of Rs.1.5 crores only have to pay to GST. **Enhanced pan India operations :** Companies can now avoid taxation roadblocks, such as toll plazas and check posts. Earlier, there were many problems, including damage to unpreserved products while transporting them. So manufacturers had to keep buffer stock to make up for the damages. These overhead costs of storing and warehousing hampered their profit. A single taxation system has reduced these problems. They can

allow transport their goods easily across India. This has resulted in the improvement of theist pan India operations

Increase in Exports : of GST has reduced - the customs duty on exporting goods. The cost of production in the local markets has also decreased due to GST. All these factors have in decreased the rate of exports in the country. Companies. have become more competitive when it comes to expanding their businesses globally The introduction of GST has helped merge this taxes of the state and Central governments.

This has helped remove the cascading effect of multiple taxes. Therefore, the burden of taxes has reduced for companies and customers. Not just this taxpayers have increased in number and hence, the tax revenues have also increased Significantly The overall taxation system is now easier to administer. Moreover, Small and medium-sized enterprises are able to enhance their businesses. It is expected that GST will help more Indian organizations to establish themes flues in the International markets.

GST replaces all types of indirect taxes at the central and state levels in spirit of one nation, one tax, one market. GST unifies all indirect taxes making one rate of indirect tax applicable on any commodity throughout the whole country. Central GST (CGST), State GST (SGST) and integrated GST (IGST), Union territory GST (UTGST) are parts of the same GST system. Its built-in mechanism of tax credit system is expected to minimize the tax evasion and tax avoidance problems.

While GST started in France in 1954 its implementation was gradual across countries. Around 160 countries in the world now implement GST (Vasanthagopal, 2011). Like Canada and Brazil India is adopting a dual GST system at the central and state levels. **While the**

Central GST will replace existing multitude of indirect taxes such as central excise taxes, additional excise duty, service tax, countervailing duty, special additional duty, the state GST will replace state level VAT, entertainment taxes, luxury tax, taxes in lottery, betting and gambling and taxes on advertisement and entry taxes. According to the Central Board of Excise and Customs of India, a Few indirect taxes such as basic custom duty, taxes on land and buildings and mineral rights and excise on alcoholic liquors and stamp duty are to remain even after the implementation of GST. GST council has determined GST rates of 0%, 5%, 12%, 18% and 28% on goods and services; a detailed schedule exists for rates applicable specific to goods and services (see the appendix for goods in each category from the CGE Council). It also outlines procedure on how CGST, SGST or IGST or UTGST are paid on sales of goods and services. GST will have wide ranging demand and supply side effects. In general GST will be beneficial to households, business firms and the central governments simultaneously. According to the government of India (2017) households benefit from i) Simpler tax system (ii) Reduction in prices of goods and services due to elimination of cascading (iii) Uniform prices throughout the country (iv) Transparency in taxation system (v) Increase in employment opportunities. Similarly trade and industry may benefit by a (i) Reduction in multiplicity of taxes (ii) Mitigation of cascading/double taxation (iii) More efficient neutralization of taxes especially for exports (iv) Development of common national market (v) Simpler tax regime-fewer rates and exemptions; and the central and state governments benefit from the GST from 1) A unified common national market to boost Foreign Investment and "Make in India" campaign (ii) Boost to export/manufacturing activity, generation of more employment,

...ing to reduced poverty and increased GDP growth (iii) Improving the overall investment climate in the country which will benefit the development of states (iv) Uniform SGST and IGST rates to reduce the incentive for tax evasion (v) Reduction in compliance costs as no requirement of multiple record keeping. In a nutshell, the overall tax rates of India now are as shown in Table 1. Direct tax on income varies by categories of income. There is no income tax up to Rs 250,000 of income.

Then a 10% tax applies to income between Rs 250, 000-500,000; 20 percent tax to Rs 500,000-1,000,000 and 30% income tax rate for income above Rs 1,000,000. Thus the direct tax system is progressive. The GST can also be progressive tax with five different rates 0%, 5%, 12%, 18% and 28% applicable according to social optimality level for commodities being sold in the market. While items such as Jute, fresh meat, fish chicken, eggs, milk, butter milk, curd, natural honey, fresh fruits and vegetables, flour, bean, bread have zero rate GST, a 28 percent rate GST is applicable in items such as Bides, chewing gum, molasses, chocolate not containing cocoa, waffles and wafers coated with chocolate, pan masala, aerated water, paint, deodorants, shaving creams, after shave, hair shampoo, dye, sunscreen, wallpaper, ceramic tiles, water heater, dishwasher, weighing machine, washing machine, ATM, vending machines, vacuum cleaner, shavers, hair clippers, automobiles, motorcycles, aircraft for personal use.

		Table 1 : Tax structure in India			
		Direct taxes		Indirect taxes	
Income tax				GST 2017	Main taxes before GST
Taxable income (Rs)	Tax rate	Plus	CGST	5%	Central:
250,000	0				Custom duties 0 to 35%
250,000 to 500,000	10%	25,000			Central excise 0 to 35%
500,000 to 1,000,000	20%	125,000	SGST	12%	Service taxes 0 to 15%
500,000 to 1,000,000	30%				
Above 1,000,000	30%		IGST	18%	
	17.00%		UTGST		
Corporation tax rate				28%	State: VAT to 15%
Dividend tax					Stamp duties 2%
Of the total revenue					(land revenue)
					State excise 0 to 35%
					43.70%

CONCLUSION

From analyses based on solutions of a dynamic CGE model of India, it can be said that the goods and service tax (Tax) implemented on 1 July 2017

enhance growth rates and promote investment and capital accumulation in India. It will improve income, consumption and utility of households no matter whether they belong to poor, middle or rich income groups. It will lower the relative prices of commodities but raise the investment, capital stock and employment among 33 production sectors of the model economy. Government will be able to follow more balanced budget following its strategy of minimal government and maximum governance

revenue increases to finance a reasonable growth in the public spending. This GST reform is of fundamental importance as it will unite all 27 states, union territories by integrating more than seven indirect taxes at the central level, seven another taxes at the state level and eliminating more than 500 special cases of indirect taxes making one tax, one nation and one market idea possible for India

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