

## An Impact of GST on Indian Economy

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### Abstract

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. The Goods and Services Tax (GST) is expected to provide the much needed stimulant for economic growth in India by transforming the existing. GST is the major reform in the Indian economy till date and has come up with the notion that one country, one market and one tax. It could affect Indian economy in several ways. GST is a complete overhaul of the old indirect tax system and what makes it even more disruptive is the fact that all transactions under GST- right from registration and raising invoices to filling returns and paying taxes – have to be done online. There would be no manual filling of returns, no paper invoices and no physical payment of taxes. It also means all existing assesses and those who are likely to come under the tax net after July 1, have to adopt a digital interface to interact with the tax authorities and move their internal operations to the digital space. It is a tax administration system that does not accept manual compliance. The only way it can be done is by interfacing with the tax administration digitally and the quantum of information that a company has to provide is also significant. In the current system, the tax is applied only after sales happen, but post-GST, the tax will be levied when the goods move. All these will require restructuring and consolidation, opening up opportunities for ERP solution providers like SAP, Tally and Oracle, as well as financial and legal professionals.

The experience of over 160 countries is that GST provides for a simpler tax collection and makes it very hard to evade taxes. However, due to practical considerations and keeping in view the social conditions of India, four GST slabs have been set at 5%, 12%, 18% and 28% for different items or services. There is also a special rate for precious metals. The rate of 28% would however be applicable for 50 goods and services. Now, only items that attract the cess, such as luxury and sin goods, white goods, cement, paint and automobile, aircraft and yacht parts, will be in the top tax category.

### Impact of GST

GST impact on Indian economy is that it has increased the government revenue by increasing the tax base at both central and state level. It will increase the nation's competitiveness in the foreign market by removing excise duty. It will also affect consumers, as garments have become more expensive and this undoubtedly has affected the consumers. After the arrival of GST, they now have to pay more tax than before. It is not a tax concession scheme where the government has reduced the tax rates and hence some goods and services are now costlier and other become cheaper due to GST.

GST will enable a virtuous compliance spiral to take effect and it will lead to formalization of the economy. People who were not paying taxes will be in the system. New GST regime will help exports a lot as all input taxes will get refunded. In most of the studies carried out shows that in medium term GST brings down inflation due to the efficiencies created in the system. Due to GST some goods become cheaper and others dearer in the new tax regime. It is expected to push up Indian growth by 1.5% to 2% by new GST regime. Some of other GST impacts are as following:-

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- It will remove the custom duties applicable on exports.
- It will add to the government revenues by extending the tax base.
- It will give credit for the taxes paid by producers in the goods or services chain. This will encourage producers to buy raw material from different registered dealers and is expected to bring in more vendors and suppliers under the taxation system.
- It will provide more transparency in the system as the customers will know exactly how much taxes they are being charged and on what base.
- Any one, who is running a business without paying VAT/Sales Taxes, things are going to get harder to avoid taxes.
- Tax collection will go up as more people will be brought under the tax loop.
- It will become easy to run pan-India businesses as you would have to deal with less number of taxes.

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