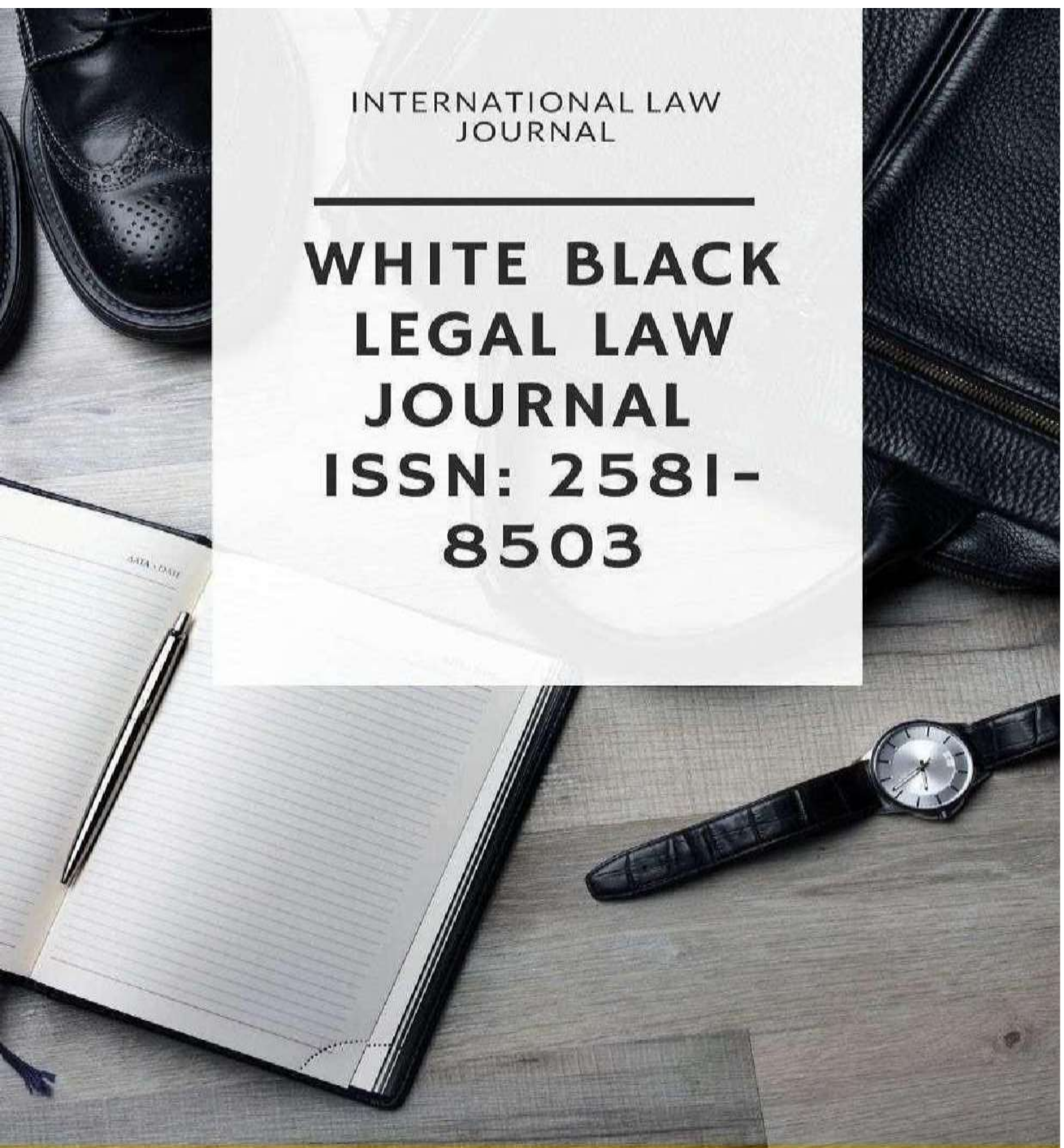

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ABOUT US

WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

IMPACT OF GST ON ECONOMY OF INDIA AND IS THERE A NEED FOR GST RATES TO BE REVISED?

AUTHORED BY - MANOJ N PUROHIT

Before 2017, the people of India used to pay many indirect taxes for every transaction like purchasing, selling, manufacturing, retailing, marketing etc. The people of the nation used to pay various taxes like "Value added Tax", "Excise duty", "Service Tax", "Central Sales Tax", "Entertainment Tax", "Luxury Tax", "Sales Tax", etc.

Later the government of India introduced a new indirect tax method called as "Goods and Service Tax" commonly called as GST by passing a bill in the parliament on 29th March 2017 which came into effect on 1st July 2017. The "Goods and Service Tax" is panoramic, multi-component, target-based tax which is imposed on every" value addition". GST is a single indirect tax which snobbish all the other taxes for the entire country of India.

By introduction on GST the negative effects of "cascading" or "double taxation" were eradicated and single taxation which was uniform in nature came into force which was advantageous for the entire country as it was reducing the burden on the consumers by paying multiple taxes.
Keywords: GST, Double taxation, indirect tax, target-based tax

Introduction

The first country to adopt "Goods and Service Tax" was France in the year 1954, and then it stretched to many countries all over the globe.[1] GST came into force in India in 2017 when the government of India decided to have "Dual Tax System".

GST came into force on 2017. It has a great history before it was introduced. The Union Finance Minister P. Chidambaram in his budget speech on 2006-07 broached the concept of GST. Later in 2010 the proposal for the same was introduced.

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[1] Clear 'History of GST Explained With Timelines' (Clear from the makers of cleartax, Dec 01st 2022) < https://cleartax.in/s/history-of-gst#:~:text=Brief%20history%20of%20GST%20Bill%20and%20GST%20Act%20in%20India,-The%20history%20of&text=The%20Fiscal%20Responsibility%20and%20Budget,introduced%20by%20April%201%2C%202010.> Accessed 15th January 2023

Earlier the design of Value Added Tax was done by the committee named “Empowered Committee of State Finance Ministers”. This committee was assigned the task of designing the basic structure of GST.[2] This committee with various groups of all the officers of state representatives and the central representatives structured the taxation system by considering various aspects of GST and drew all the required reports of threshold limits and exemptions for various taxes implied on the people and released its first discussion paper in November, 2009.[3]

They determined the federal structure of India and laid the system of GST accordingly by dividing into centre and states. The merging of Central and State taxes into one tax had its own advantages that contributed in an enormous was to the countries’ Gross Domestic Product which in turn increased the standard of living of the people in the country and the country got its recognition too.

Evolution of GST

In 2000, the Prime minister initiated the concept of Goods and Service tax. A committee was formed to frame draft of indirect tax. Implementation took around 17 years after the committee was formed. The bill went through various phases and amendments and rescheduling before the act came into force.

YEAR 2000 – Committee was set up for drafting the indirect taxes

YEAR 2004 – Task force was set up for improvement of the draft of indirect tax.

YEAR 2006 – Goods and Service Tax schedule was introduced for the first time by finance minister

YEAR 2007 – It was decided to get rid of Central Sales Tax. It was not possible suddenly, so the Central Sales Tax was reduced to 3%.

YEAR 2008 – Dual structure of CGST and SGST was finalised for distinct legislation.

YEAR 2010 – The GST scheme was postponed due to few implementation obstacles.

YEAR 2011 – A Bill for introduced for amendment for enabling the GST Laws.

YEAR 2012 – It got delayed due to lack of clarity regarding “Clause 279B”

YEAR 2013 – The “Standing Committee” presented a report on GST

YEAR 2014 – A bill was brought up by Finance Minister in the Parliament regarding GST.

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[2] Ministry of Finance (Goods and Service Tax Council) < https://gstcouncil.gov.in/brief-history-gst > Accessed 15th January 2023

[3] [3] Ministry of Finance (Goods and Service Tax Council) < https://gstcouncil.gov.in/brief-history-gst > Accessed 15th January 2023

YEAR 2015 – Bill got cleared in Lok Sabha but it got hampered by Rajya Sabha

YEAR 2016 – GSTN came live. The laws were changed. Both the houses approved and presidential approval was also granted.

YEAR 2017 – Extra four supplementary bills on GST were approved by both the houses and finally "Goods and Service Tax" was implemented.[4]

GDP Meaning and Measures

Gross Domestic Product means the amount means the amount of goods and services produced in the borders of the nation during a specific period. It doesn't only include the production of Goods and Services but also the amount of income that has been gained by production of Goods and Services or the amount spent on the end goods and services which subtracts imports.

The Gross Domestic Product can be measured by breaking down demand into different parts:

The consumption of consumers by spending for the goods and services

The spending that is incurred on business or investment

The spending on government on Goods and Services.

The spending on net exports.[5]

Whatever is bought by the end users must be produced by the producers first. All kinds of goods can not be taken into consideration of calculation. For this purpose, the goods can be broken down into five categories which are resistance goods, non-resistance goods, services, structures and change in stock. These five categories can be considered for the measurement of Gross Domestic Product.

Relation between GST and GDP

Now, after the implementation of GST in the country, the Gross Domestic Product of the country changed. To hypothetically assume that the Gross Domestic Product of the country is increasing, the standard of living of people in the country also increases. This is possible because, the purchasing power of the consumers increases means the people in the country are buying more goods and services. It also indirectly means that the people are earning more. By this it increases the various factors of economy like employment increases because of more purchasing the

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[4] Vaishnavi 'What is GST?'(GROWW, 28th Feb 2017) < https://groww.in/p/tax/gst > Accessed on 22nd January 2023.

[5] Tejas 'Measuring the size of economy : GDP' (Khan Academy, 12th Dec 2020) < https://www.khanacademy.org/economics-finance-domain/macroeconomics/macro-economic-indicators-and-the-business-cycle/macro-the-circular-flow-and-gdp/a/measuring-the-size-of-the-economy-gross-domestic-product-cnx > Accessed on 22nd January 2023.

producers intend to extend their business. By this the people will be able to overcome poverty, hence, the problem of poverty is also solved. By this people will be able to provide education to their children. The problem of education will also be resolved by this and the future of the country will also be bright. Hence the various factors of economy like poverty, unemployment, education can be eradicated by the measuring of GDP of the country.

The GST introduction had an impact on the GDP of the nation. The growth rate of GDP was 8.95%, which was 15.54% increase later a decline of 10.33% in 2019 and 2.72% in 2018 and 0.34% decline in 2017.[6] We can see a significant growth in the GDP of the nation after the introduction of GST in the nation. It was possible because:
The various tax rates on a single transaction was removed and a uniform taxation system was introduced by which tax implementation became simplified. It seemed simple across the state.

It reduced the cost of transaction. For example, initially there were more than 10 types of taxes that were levied on a single transportation. People were burdened by this because of the different types of taxes that was levied on one single transaction. People were facing problems and the business was not expanding by this. After the introduction of GST, the tax payment got simplified and people were encouraged to take up the business by paying a unified tax. Even though tax amount that was paid before and after GST did not have much difference it felt simpler for people to pay single tax in place of more than ten types of taxes.

By this more goods and services were manufactured in the country by which exports also increased. If a country exceeds its exports it means that the country has a trade surplus. The trade surplus means that the country has high level of output of goods that from a country's manufacturers by which the employment is increased. When the country is exporting more it also initiates the funds flow into the economy by which the funds will contribute to the economic growth.

The relationship between countries exchange rates will also be valued. It indirectly increases the relationship between two nations and strong domestic currency hampers exports and imports become cheaper.

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[6] 'India GDP Growth Rate 1961-2023 (Macrotrends) < https://www.macrotrends.net/countries/IND/india/gdp-growth-rate#:~:text=India%20gdp%20growth%20rate%20for,a%200.34%25%20decline%20from%202017. > Accessed on 22nd January 2023.

Because the GST will concede all the other taxes the exemptions on various taxes for various transactions shall be removed. This will in turn yield more income for the government. By this the GDP of the country will also increase.

Meaning of Inflation

Let us say that price of one kilogram of onion is rupees 20 rupees on a particular day. A person who is drawing an average salary of rupees twenty thousand can afford to buy the commodity. In case the price of onion goes to rupees thousand. The buying power of the consumer decreases. With this example we can say that inflation is a situation where in the prices of goods and services increases drastically in a period of time and the purchasing power of the consumers decreases.
One of the ways to measure inflation is by consumer price index. Consumer price index is a measure where it helps to measure the purchasing power of consumer over a basket of goods. Here basket of goods means that particular type of goods and services like transportation, food, clothing, housing etc. The consumer price index indicates how much a consumer is able to spend on particular commodity or set of goods and services. By this we can be able to calculate the inflation rates.

Impact of GST on Inflation with the help of Consumer Price Index

The impact of GST can be calculated by taking into consideration the total Consumer Price Index. The Consumer Price Index was expected to be around 3.24% when the government of India introduced GST in the nation. The government assumed that the purchasing power of the consumers shall increase because they shall be paying only unified tax and not number of taxes on goods and services.

In reality the Consumer Price Index turned out to be 4.61%. By this we can say that the Consumer Price Index moved up by 1.37%[7]
But the consumer price index cannot be considered as the only measure to indicate the effects of GST on the economy. But it can be considered as one of the reasons where in the economy's purchasing power might have been decreased. GST has generated a huge income for the government in direct as well as indirect ways. But the statistics indicates that the purchasing power

[7] GeeksforGeeks 'Impact of GST on inflation' (Geeks for Geeks, 8th august 2022) < https://www.geeksforgeeks.org/impact-of-gst-on-inflation/ > accessed on 25th January 2023.

of the consumers has been affected after the introduction of GST.

Thus, inflation rates in the economy is increasing. This might be due to various reasons and not just because of the concept of GST as it has various advantages over the economy. GST has proved to be beneficial to the economy in various other ways and has proved to be effective in the economy.

Should GST rates be revised?

The Government of India has the power to revise the rates of Goods and Service tax from time to time according to the conveyance of the people. The need for GST rates to be revised can be taken into consideration on the following products like the daily essentials. Processed food, almonds, preparation of vegetables, nuts, fruits, other parts, ghee, butter have the tax rates of 12% which can be reduced because they are the one’s which are essentials for the human life. The tax rates on the luxuries can be increased because the consumers would not look at the price bands before purchasing of luxuries. It can be increased on tobacco as they are harmful to the health and they are tax yielding goods.

Conclusion

Goods and Service tax has both positive as well as negative impact on the economy. It can be seen that the GST has its own sorts of pros and cons. It facilitates the economic growth by being transparent and create loss over few sectors by the increased prices of the commodity. But the ease of doing business has been helpful by unified taxation system in the country.