A Study of Impact of Indirect Taxation on Indian Economy

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Abstract

GST the biggest tax reform in India founded on the notion of "one nation, one market, one tax" is finally here. The moment that the Indian government was waiting for a decade has finally arrived. The single biggest indirect tax regime has kicked into force, dismantling all the inter-state barriers with respect to trade. The GST rollout, with a single stroke, has converted India into a unified market of 1.3 billion citizens.One of the major steps to align the India's indirect taxation system with that of the best practices followed by the countries across the globe has been the introduction of the Goods and Services Tax (GST). GST is a single indirect tax proposed to replace all other indirect taxes, thereby reducing the burden of paying different indirect taxesAfter the introduction of GST tax payment got simplified and people were encouraged to take up business by paying a unified tax. Even though the tax amount that was paid before and after GST did not have much difference it felt simpler for people to pay a single tax in place of more than ten types of taxes.

Introduction

Taxes are termed as an obligatory contribution made by individuals or corporations falling under the tax slab, to the Government of India. From local to national, taxes are applicable on all levels in India and are considered to be one of the major sources of income for the Government.The government levies taxes on the citizens of the country to produce income for business projects, enhance the country's economy, and lift the standard of living of the nationals. The government's authority to levy tax in our country is drawn from the Constitution of India that deals out the supremacy to levy taxes to the State as well as Central governments. All the taxes levied within the country require being backed by an escorting law passed by the State Legislature or the Parliament.

Types of Taxes

In a broader term, there are two types of taxes namely, direct taxes and indirect taxes. The implementation of both taxes different . Direct taxes are imposed on income and profits, Direct taxes are income tax, corporate tax, wealth tax, etc.,Indirect Taxesare levied on goods and services. Indirect Taxes includes sales tax, service tax, value added tax, etc.

Examples Of Indirect Taxes In India

Goods and Services Tax (GST)

GST is a single and comprehensive indirect tax that is levied on all goods and services as per the slabs laid down by the GST council. With GST, the government has eliminated the cascading tax-on-tax effect of the old regime.

Customs Duty

You are required to pay customs duty when you purchase goods that need to be imported from a foreign country. The intention of imposing customs duty is to ensure that every product entering the country is taxed.

Value Added Tax (VAT)

VAT is imposed on products whenever their value goes up throughout the supply chain. VAT is imposed by the state governments. They decide the percentage of VAT to be imposed on different goods. While GST has eliminated VAT in most cases, it is still imposed on certain products such as alcohol.

Stamp Duty: This is a tax levied on the transfer of any immovable property in a state of India. Stamp tax is also applicable on all legal documents too.

Entertainment Tax: This tax is charged by the state government and is applicable on any products or transactions related to entertainment. Purchasing of any video games, movie shows, sports activities, arcades, amusement parks, etc. are some of the products on which imposed.

Objective of study

1. To know the Tax structure of India.
2. To Examine the Indirect Taxes.
3. To understand the role of Indirect Taxes in India
4. To Know the Impact of GST on Indian Economy

Research Methodology

The study focuses on Secondary data collected from various sources i.e books, National and International Journals, government reports, publications from various websites .

Goods and Services Tax (GST)

It is a tax levied when a consumer buys a good or service. It is meant to be a single, comprehensive tax that will subsume all the other smaller indirect taxes on consumption like service tax, etc.GST is levied on every stage of manufacturing and sales of goods and services across India. This tax is levied when the goods or services are consumed.GST is a value-added tax levied on manufacturing or selling goods and services. GST is a destination-based tax that allows a continuous flow of input tax credits such that only the final consumer bears GST. There is no cascading of taxes since only the value added at each stage of the supply chain is taxed under .new and unified tax structure is followed for indirect taxation on the place of various tax laws like Excise duty, Service Tax, VAT, etc. and for sure the new tax regime is determined to eliminate the cascading effect of tax on transaction of products and services, and it will result in availability of product and services to consumers at a lower price.

GST There are three subcategories to GST- CGST (Central Goods and Services Tax) is collected by the Central Government on interstate sale of goods and services.SGST (State Goods and Services Tax) is collected by the State Government on intrastate sales.IGST (Integrated Goods and Services Tax) is collected when a supply of products and services is supplied from one state to another. The taxes collected are shared both by the Central and State Government.

Before 2017, the people of India used to pay several indirect taxes for every transaction, such as purchasing, selling, manufacturing, retailing, marketing, etc, in the form of Value Added Tax (VAT), excise duty, service tax, central sales tax, entertainment tax, luxury tax, sales tax, etc. Former Union Finance Minister, P. Chidambaram, in his budget speech for 2006-07 broached the concept of ‘Goods and Service Tax’ (GST). On 29th March 2017, the GST Bill was passed by both houses of the parliament, followed by which on 1st July, 2017, the same had come into effect. GST is a single indirect tax proposed to replace all other indirect taxes, thereby reducing the burden of paying different indirect taxes. The introduction of GST facilitated the elimination of the cascading effect of indirect taxation and the concept of double taxation, thereby introducing a uniform regime governing indirect taxation in India. GST has been responsible for pushing the economy a step closer to a common market that involves the free movement of capital and services, making room for doing business in an easier way. This article aims to provide insight as to how GST has had an impact on the Indian economy and deliberates upon the need to revise GST rates and amendments that need to be made.

Impacts Of GST

1. Simpler Tax structure

   With GST, the taxation system of our country has become simpler. It is a single tax, ensuring easier calculation. With this tax, the buyer gets a clear idea of the amount paid as tax when purchasing certain products. This is crucial when considering GST and its impact on the GDP.

2. More funds for Production

   Another effect of GST on the Indian economy has been the reduction in the total taxable amount. This saved fund can again be invested back into the production cycle to foster production.

3. Support for Small and Medium Enterprises

   Based on the size of your organization, the amount of GST depends on your firm's annual turnover, provided you have been registered under the Composition Scheme introduced by GST. Enterprises with a yearly turnover of 50 lakhs have to pay 6% GST whereas enterprises with 1.5 crores worth of turnover have to pay 1% GST.

4. Increased volume of Export

   When considering GST and its impact on the Indian economy, customs duty on exporting goods has reduced. So now production units save money while producing goods and also while shipping them. This two-way savings has lured many production units to export their goods, increasing the export quantity.

5. Enhanced operations throughout India

   With a unified taxation system, transporting goods around India has now become easy, boosting operations throughout the country.

6. No more Cascading Effect

   With GST, taxes of the State and Central Government have been merged. This has removed the cascading effect of taxes, reducing the burden on the buyer and the seller. So even if it may look like one big chunk of tax to be paid, you pay lesser hidden taxes.

7. Bring about certainty: Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods and services will lend greater certainty to taxation system;

8. Reduce Corruption: Greater use of IT will reduce human interface between the taxpayer and the tax administration, which will go a long way in reducing corruption;

9 .Boost Secondary Sector: It will boost export and manufacturing activity, generate more employment and thus increase GDP with

gainful employment leading to substantive economic growth;

10.Enhancing Investments: GST being destination based consumption tax will favour consuming States. Improve the overall investment climate in the country which will naturally benefit the development in the States.

Ultimately it will help in poverty eradication by generating more employment and more financial resources.

The introduction of GST had an impact on the Gross Domestic Product (GDP) of the nation. The growth rate of GDP was 8.95%, which was a 15.54% increase followed by a latter decline of 10.33%, 2.72% and 0.34% in 2019, 2018 and 2017, respectively. Key reasons for the growth of the GDP of the nation after the introduction of GST

Conclusion

Fundamentally, the $2.4-trillion economy is attempting to transform itself by doing away with the internal tariff barriers and subsuming central, state and local taxes into a unified GST. The rollout has renewed the hope of India's fiscal reform program regaining momentum and widening the economy. ".GST has both Positive as well as Negative impacts on the economy. It provides Economic Growth by being transparent and creates loss over a few sectors by the increased prices of the commodity but the ease of doing business has been helped by a unified taxation system in the country. Elimination of the confusion surrounding the number of indirect taxes that were required to be paid by the taxpayers. This also involves the removal of the cascading effect of taxes. GST aims to increase the number of taxpayers in the nation, which will help in the development of the nation's economyAs a result, more goods and services were manufactured in the country leading to an increase in net exports. If a country exceeds its exports it means that the country has a trade surplus with a high level of output of goods from manufacturers by which employment is increased. When the country is exporting more it also initiates the funds flow into the economy thereby contributing to economic growth. This has made foreign exchange rates more favourable.

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