© October 2017| IJIRT | Volume 4 Issue 5 | ISSN: 2349-6002

Impact of GST on GDP of Indian Economy—A Study

Dr.N.L.Vijaya
Assistant Professor, Department of Commerce, Government College for Women, Kolar – 563101, Karnataka

Abstract: A Tax is a mandatory financial charge or some other type of levy imposed upon a tax payer by the governmental organization in order to fund various public expenditures. Governments use different kinds of taxes and vary tax rates. They do this in order to distribute the tax burden among individuals or class of people. To create a tax system, a state must make choice regarding the distribution of tax burden. GST is levied on all transactions such as sale, transfer, purchase, barter, lease, import of goods and services. It is a consumption-based tax, taxes are paid to the state which the goods or services are consumed not the state in which it is produced. The main intention is to avoid the double taxation system and to eliminate cascading effect of tax in our country.

Since GST is a transformational tax reform in our country since independence, it has a huge impact on GDP of our economy. This paper tries to study such invariable effect of GST on GDP and its consequences on the overall business activities. GST can be termed as "one Tax, one Nation and one Market". GST is highly compliance driven law.

Key Words: Tax, GST, GDP, Indirect Tax, cascading effect

INTRODUCTION

Goods and Services Tax (GST) is a system of indirect taxation in India merging most of the existing taxes into single system of taxation. GST would be comprehensive indirect tax on manufacture, sales, consumption of goods and services throughout India, to replace taxes levied by the central and state governments.

The GST is consumption based tax levied on the supply of goods and services based on the input tax credit method. This method allows GST-registered business to claim tax credit to the value of GST they paid on purchase of goods or services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer. GST can be termed as "One Tax, One Nation, One Market".

Table showing how GST works

Stage of supply chain	Purchase value of input	Value addition	Value at which supply of goods and services made to next stage	Rate of GST	GST on Output	Input tax credit	Net GST=GST on output-input credit tax
Manufacturer	100	30	130	10%	13	10	13-10=3
Whole seller	130	20	150	10%	15	13	15-13=2
Retailer	150	10	160	10%	16	15	16-15=1

OBJECTIVES OF GST

- To eliminate cascading effect of tax
- To improve competitiveness of original goods and services thereby improving GDP of the country
- To ensure the availability of input credit across the value chain
- To reduce the complication in tax administration and compliance
- To have unified law involving all the tax bases, laws and administration procedures across the countries
- To reduce unhealthy competition among the states due to tax and revenues
- To reduce the tax slab rates to avoid the further clarification issues

Need for Goods and Services Tax:

- Simpler tax structure
- Eliminates cascading effects of the tax
- Increased revenue
- Technology driven system

Gross Domestic Product (GDP)

The gross domestic product (GDP) is one of the primary indicators used to gauge the health of a country's economy. It represents the total dollar value of all goods and services produced over a specific time period; you can think of it as the size of the economy. Usually, GDP is expressed as a comparison to the previous quarter or year. For example, if the year-to-year GDP is up 3%, this is thought to mean that the economy has grown by 3% over the last year. The United States has a GDP of $18,869.4 billion as of the fourth quarter of 2016, according to the Bureau of Economic Analysis.

GST Positive Impact of GDP

There will be one tax rate for all which will create a unified market in terms of tax implementation and the transaction of goods and services will be seamless across the states.

The same will reduce the cost of transaction. In a survey, it was found that 10-11 types of taxes levied on the road transport businesses. So the GST will be helpful to reduce transportation cost by eliminating other taxes.

After GST implementation the export of goods and services will become competitive because of nill effect of cascading effect of taxes on goods and products. In a research done by NCAER it was suggested that GST would be the key revolution in Indian Economy and it could increase the GDP by 0.9 to 1.7 percent. As speculated earlier, the tax experts can now assume that the growth will be around 1 to 2 percent after the implementation of the GST.

GST will be more transparent in comparison to the existing law provision so it will generate more revenue to the Government and will be more effective in reducing corruption at the same time. Overall GST will improve the tax Compliances.

In a report issued by the Finance Ministry, it was mentioned that Make In India programme will be more benefited by the GST structure due to the availability of input tax credit on capital goods.

As the GST will subsume all other taxes, the exemption available for manufacturers in regards of excise duty will be taken off which will be an addition to Government revenue and it could result in an increase in GDP.

The GST regime has although a very powerful impact on many things including the GDP also. The Gross Domestic Product has the tendency to loom on the shoulders of revenue generated by the economy in a year. Still, a worthwhile point includes that the GST has the capability to extend the GDP by a total of 2 percent in order to complete the ultimate goal of increasing the per-capita income of every individual. Also, the GST scheme will certainly improve the indirect revenues to the government as the tax compliance will be further enhanced and rigid, extending the tax paying base which will add to the revenue. The increased income of the government will redirected towards the developmental projects and urban financing creating an overall implied scenario.

GST Negative Impact on GDP

As the GST rates are 5%, 12%, 18% and 28% and if the GST rate on service will be finalized at 5% or 12% then cost of services will get reduced while in else case if the rate will be 18% or 28% on services then services will become costlier and it will lead to inflation for a short period.

In a report, DBS bank noted that initially GST will lead to rise in inflation rate which will remain for a year but after that GST will affect positively.

GST will applicable in the form of IGST, CGST AND SGST on the Centre and State Government, but some economists say that there is nothing new in the form of GST although these are the new names of Central Excise, VAT, CST and Service Tax etc.

As every coin has two faces in the same way we tried here to familiarize the things related to GST with both perspective i.e. positively and negatively in this article. Despite having some factor which is being expected to affect the Economy adversely there are so many other things which are expected with a positive impact on GDP.

OBJECTIVE OF THE STUDY

- To study Goods and Services Tax (GST) and Gross Domestic Product (GDP)
- To analyze the impact of GST on GDP

SCOPE OF THE STUDY

The study is confined to analyze the impact of GST on Indian GDP and it does not cover any other area.

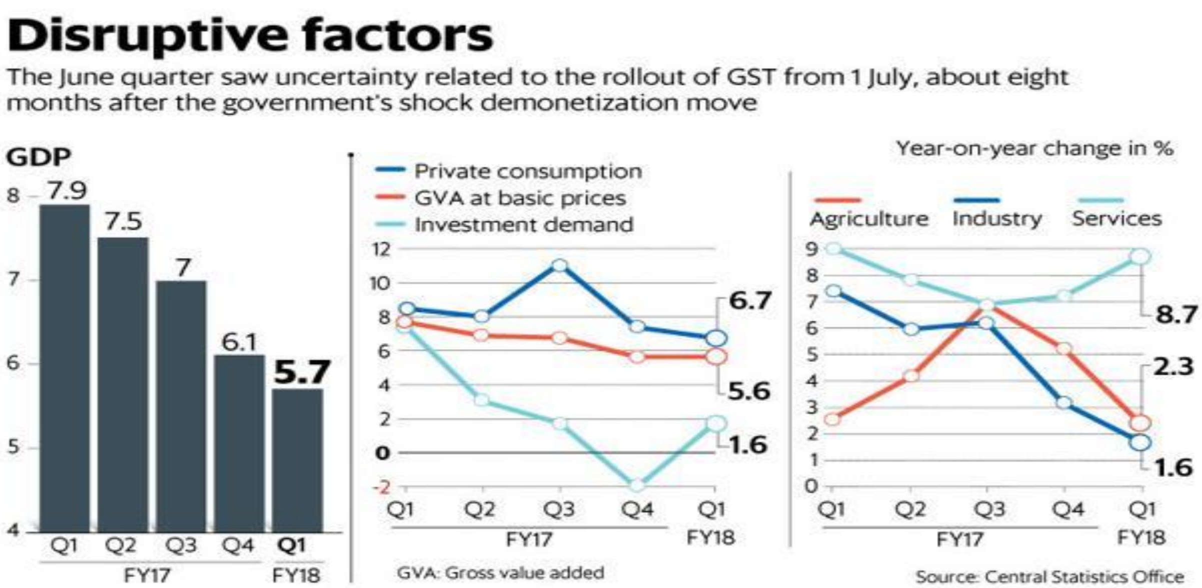
METHODOLOGY

The study is based on secondary data. GDP of the previous year's last quarter and current year's first quarter has been analyzed for comparison.

Analysis and Interpretation

In India, the growth rate in GDP measures the change in the seasonally adjusted value of the goods and services produced by the Indian economy during the quarter. India is the world's tenth largest economy and the second most populous. The most important and the fastest growing sector of Indian economy are services. Trade, hotels, transport and communication; financing, insurance, real estate and business services and community, social and personal services account for more than 60 percent of GDP. Agriculture, forestry and fishing constitute around 12 percent of the output, but employs more than 50 percent of the labor force. Manufacturing accounts for 15 percent of GDP, construction for another 8 percent and mining, quarrying, electricity, gas and water supply for the remaining 5 percent.

India GDP growth rate slumps to 5.7 percent in the second quarter of 2017, below 6.1 percent in the previous period and market expectations of 6.6 percent. It remains the weakest growth rate since the first quarter of 2014 due to a slowdown in consumer spending and exports. On the production side, manufacturing and agriculture eased. Figures for the second quarter of 2017 mark the third consecutive period of slowing growth, following the demonetization program started in November of 2016 that removed 86 percent of India's currency in circulation.



1. India GDP growth rate slowed to 5.7% in Q1 of 2017-18 on the back of destocking ahead of GST implementation and the lingering impact of demonetization.
2. Note ban curtailed cash availability, slowing consumption and hurting cash sensitive sectors like construction, trade, logistics, and small and medium size enterprise.
3. Private consumption slowed from the March quarter, investment demand turned positive in the June quarter after contracting in the previous quarter.
4. Uncertainty related to the GST rollout on 1 July, which came about eight months after the government cancelled 86% of the currency, saw manufacturers cutting production and dealers offering discounts on items such as cars. As a result, manufacturing growth slowed in the June quarter.
5. Trade, hotels, and transportation, impacted by demonetization in the March quarter rebounded to grow, mostly due to discount sales ahead of GST implementation.
6. The central bank's annual report reiterated its forecast for gross value added (GVA) to grow at 7.3% in 2017-18, as against 6.3% in 2016-17. GVA, which is arrived at deducting net indirect tax from GDP, grew 5.6% in the June quarter, the same as in the March quarter.
7. The report flagged risks such as an over-leveraged corporate sector and a stressed banking sector, because they could delay private investment demand revival. It also noted that farm loan waivers could add to upward pressures on inflation.
8. Two recent policy measures --demonetization in November 2016 and GST rollout in July 2017 had a short term impact on economic activity and aggravated the already slowing momentum.
9. The second half of this financial year is expected to witness an improvement in trend growth as impact of demonetization is gradually fading, with the fallout from GST likely to extend to the September quarter before fading out

CONCLUSION

- GDP rate has considerably decreased after demonetization
- Soon after demonetization, implementation of GST has further affected drastically on GDP
- Decrease in the cash production and non availability of cash for certain period has reduced GDP rate
- The effect of GDP on Production sector is one of the main reason for considerable downfall of GDP rate
- The confusion prevailing in the general public has affected the growth rate
- This present effect is for short term and is expected to improve in the future and will result in the increase of GDP rates.

REFERENCE

[1] Goods and Services Tax – B.Mariyappa, Himalaya Publishing house
[2] GST impact on GDP of India-C.S.Vijay Jha
[3] www.rbi.org.in
[4] www.investopedia.com