

The Negative Impact of GST On Indian Economy

Mr. Gajanan Dhannu Rathod,

Mr. Rakesh Kumar

Assistant Professor of Economics,

Assistant Professor of English,

N.L.S.College, Jaitpur –Daudpur, Saran,

NLS College, Jaitpur-Daudpur, Saran

Bihar, India .841205

Bihar 841205

Email: rathodg521@gmail.com

Email: rakesh0milton@gmail.com

Abstract:

GST is a concept for the large confusion among common man. The main aim of this research paper is to explain the concept of the GST and its impact on Indian economy. In India, the idea of GST was contemplated in 2004 by the Task Force on implementation of the FRBM Act, 2003, named Kelkar Committee. GST is an indirect tax of government of India, having large negative impact on poor people, because, the theory of equality or ability to pay has been excluded in the tax system. Taxes should be straight, simple and essay, its means that the poor and the rich person should be taxed according to their income, which is lacking in the GST system of the government of India. Briefly, every person is liable to pay tax on output and is entitled to enjoy credit on input tax paid and tax should be only on the amount of value added. According to the world bank, GST is one of the most complicated tax systems in the world, with its high tax rates and a larger number of tax rates, The GST system was launched in a function at Central Hall of Parliament on July 1 ,2017. GST is a "one nation, one tax, one market" aimed at unifying the country's \$2 trillion economy and 1.3 billion people into a common market. Under GST, goods and services fall under five tax categories: 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent. The current tax system puts negative impact on the growth rate, consumption, demand and the inflation rate and tax rate and unemployment rate in India. This condition is not good for common man. GST is not Ability-to-pay taxation. It should follow a progressive taxation principle, where taxes are levied according to a taxpayer's ability to pay.

Keywords: Growth Rate, Inflation, Rate, Tax Rate, Ability-To-Pay Taxation, Unemployment.

Introduction:

Tax means a fee charged by a government on a product, income, or activity. If tax is levied directly on personal or corporate income, then it is a direct tax. If levied on the price of goods or services, then it is called an indirect tax. GST means Goods and Services (also known as VAT) Tax is a "one nation, one tax, one market" includes all indirect taxes in India. The first suggests that German economist Dr Wilhelm Siemens proposed the VAT in 1918. The GST tax was finally adopted by France in 1954. Currently, there are 160 countries in the world that have implemented VAT/GST. However, GST is known as "General Sales Tax" in Pakistan. In one of the countries of Africa, it is known as "General Consumption Tax (GCT). In India, it is known as GST. According to world bank, GST is one of the most complicated tax systems in the world, with its high tax rates and a larger number of tax rates, The highest GST rate in India, while only applying to a subset of goods and services traded, is 28%, which is the second highest among the sample of 115 countries which have a GST (VAT) system," WB said, "India has the highest standard GST rate in Asia, it said. Most countries around the world, according to the note, have a single rate of GST. 28 countries have used two rates and only five countries including India have used five different rates i.e. 0, 5, 12, 18 and 28%. WB said. GST, introduced on July 1, 2017, after more than a decade of efforts, was designed to bring about a common policy and administrative framework for taxation on the supply of goods and services across the entire country while causing minimum tax based restrictions on trade, besides harmonizing the rates of GST.

Objectives of study:

- To Study GST According To The Ability To Pay Theory.
- To Study The Concept Of Goods And Services Tax (GST) And Its Impact On Indian Economy.
- Improvement in GST System.

Literature Review:

World Bank (2018) and et all other research study on “GST in India” concluded that the Indian GST system is among the most complicated ones in the world, with its high tax rates and a larger number of tax rates and negative impact on its economy.

Methodology:

The present research paper is a study of “**THE NEGATIVE IMPACT OF GST ON INDIAN ECONOMY**” based on secondary data collected from the published research paper, report and individuals in India. Specifically, the secondary sources include journals, and websites.

History of GST in India:

The first reform process of India's indirect tax regime was started in 1986 by congress government, with the introduction of the Modified Value Added Tax (MODVAT). A single common "Goods and Services Tax (GST)" was proposed and given a go-ahead in 1999 during a meeting between the BJP Government and his economic advisory panel, which included three former RBI governors. After BJP government is set up a committee headed by the Finance Minister of West Bengal, Asim Dasgupta to design a GST model. In 2005, the Kelkar committee recommended rolling out GST as suggested by the 12th Finance Commission. In the 2014 Lok Sabha election, the BJP government was elected into power, with the consequential dissolution of the 15th Lok Sabha, the GST Bill – approved by the standing committee for reintroduction – lapsed. After the enactment of various GST law (Constitution 122 Amendment) Bill, 2014) was launched all over India with effect from 01 July 2017 the Jammu and Kashmir state legislature passed its GST act on 7 July 2017. The current Structure of GST is a Central GST, State GST and Integrated GST in India.

Positive Impact of GST:

GST, which embodies the principle of "one nation, one tax, and one market" is aimed at unifying the country's \$2 trillion economy and 1.3 billion people into a common market. Under GST, goods and services fall under five tax categories very difficult to understand for the common man. GST positive aspect is one indirect tax for the whole nation, which will make India

into a unified common market. The GOI is an increased income day by day. Currently, total collections in January 2018 added up to Rs 88,047 crore.

The Negative Impact of GST in India:

- **Inflation rate:**

The inflation rate in India from January 2017 to January 2018. The term inflation means the devaluation of money caused by a permanent increase in the price level of products (C+I). The inflation rate is as below.

Chart No 1

Source: <https://tradingeconomics.com>

In the above chart 1 shows that inflation rate has increased from 1.79 % to 5.11 % during the period July 2017 to January 2018. Why? Because, the negative impact of GST on price levels in India, It has largely affected consumption and demand of poor people in India.

2) India's GDP monthly Growth Rate:

India's GDP monthly Growth Rate in below.

Chart No 2

<https://tradingeconomics.com>

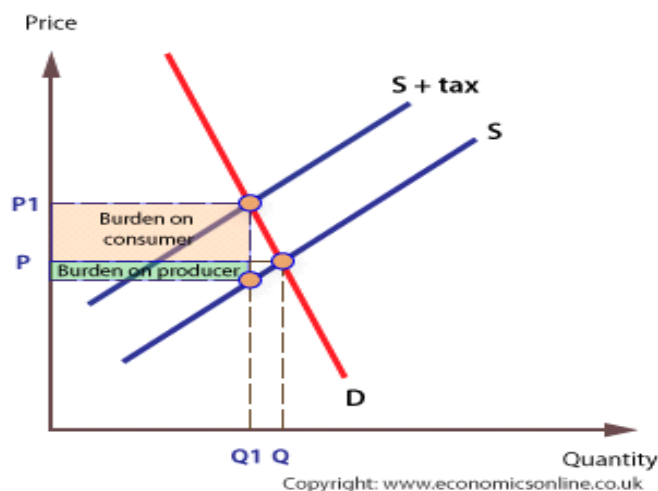
In the above chart show that India's economic growth was 8.4% in March 2015 which fell to 5.7% in July 2017, bottoming out from the impact of demonetization and GST. The negative impact of GST is evidently visible on the Indian Economy.

- **The Impact Of GST On Poor People?**

GST is an indirect tax that is finally recovered from consumers of goods and services, in the form of increase in sale price. Thus every consumer be he/she is rich or middle class or poor pays same amount of GST for one unit of any product or service he avails in the market and here in India, the maximum population is of the middle class and lower middle class where people either belong to service class or they depend on agriculture for their living. It has negative impact on common man in India.

- **The Impact Of Indirect Tax On Consumer**

The GST tax is determined by the price elasticity of demand and GST demand is inelastic the tax burden is mainly on the consumer as shown below in the diagram.



Source: <http://www.economicsonline.co.uk>.

The above diagram shows the negatively affected price level of essential goods and services: The proposed GST may lead to increase the price of essential products leading to low consumption.

IJSER

- **High Tax Rate in India:**

The selected country current tax rate is below.

Chart No 3

The above chart shows that India's currently tax system is very (28%) second highest tax rate in the world, it is not far in India because more population lies under BPL(29.9%) and income inequality is high, India's 20% people hold country 47.7% of total wealth. thereof, the negative impact on common man in India.

- **The Unemployment Rate:**

The unemployment rate is the measure of the prevalent unemployment and it is calculated in percentage by dividing the number of unemployed individuals by all individuals currently in the labor force. The current unemployment rate is shown below.

Chart No 4.

Source: www.unemploymentinnindia.cmie.

The implementation of GST (jul-2017) increased the unemployment rate (3.39 to 6.06 %) during period July- 2017 to feburwary-2018 in India .It means negative impact of GST in rampant on employment rate.

- **Other Impact :**

The negative impact of GST on the real estate market is that it increased new home buying price by 8% and reduced buyers' market by 12%. And production processes are likely to take some time to align with the new framework (change taxes system) as firms adjust to the input tax credit system and better manage working capital requirements.

Conclusions:

Taxation system is very important for the economy because they maintain equity in income group. In context of India, second high tax rate in the world and its devastating impact on poor people , Consumption and productions of goods and services are undeniably rising and because

of multiplicity of taxes in current tax system, organization complexities and conformity cost is also increasing. At present Indian economy requires a major change in the taxation system.

Recommendations:

- Improve in GST as per Ability to pay theory in India
- The conversion of GST into direct tax in India.
- Improvement of tax rate in India.

References:

- World Bank, (2018) “GST: India” published by WB, Washington, USA.
- A Dash,(2017): “positive And Negative Impact Of GST On Indian Economy,” International Journal Of Management And Applied Science, ISSN: 2394-7926 Volume-3, Issue-5, May-2017.
- Yadav K.,(2017):“Impact of Goods and Services Tax on Indian Economy”,SSRG International Journal of Economics and Management Studies (SSRG-IJEMS) – volume4 issue7 July 2017.
- Pankaj And Sarkar,(2016) :“Goods And Service Tax In India: Problems And Prospects,” Published By Asian Journal Of Management Research ,July 2016.
- <https://economictimes.indiatimes.com>. retrieved Mar10,2018
- [Www.economiconline.com](http://www.economiconline.com). retrieved Mar10, 2018.
- www.gstcouncil.gov.in. retrieved Mar15, 2018.
- www.josrjournals.org. retrieved Mar11, 2018.
- www.tradingeconomics.com. retrieved Mar12, 2018.
- www.economicstimes.com.retrieved Mar08, 2018.

- www.quora.com. retrieved Mar12, 2018.
- www.wikipedia.org. retrieved Mar14,2018.
- www.unemploymentinnindia.cmie. retrieved Mar19,2018.

IJSER