GST and growth of Indian Economy

Taxation, both direct and indirect, plays an important role in promoting economic growth as well as equitable distribution. To make India a financial super power, the introduction of GST is warranted. There is much apprehension, relating to the proposed GST regime and its impact on the growth of Indian Economy. The structure of GST is based on the destination principle. In India, destination-based taxation requires high compliance cost and efficient administration. India is already facing the cascading effect of indirect taxes.

With the introduction of GST, all the cascading effects of Cenvat and Service Tax will be comprehensively removed, with a continuous chain, set off from the producer’s point to the retailer’s point. Moreover, certain major Central and State taxes will also be subsumed in GST. The tax base will shift from production to consumption whereby imports will be liable to tax and exports will be relieved of the burden of the goods and service tax. International exports would be zero rated. On the other hand, international imports would be subject to both CGST and SGST. Moreover, GST will redistribute the burden of taxation equitably, between manufacturing and services, bringing about a qualitative change in the tax system. It will lower the tax rate, by broadening the tax base and minimizing exemptions.

The greatest impact of the implementation of the GST would create a common market across the country and reduce compliance costs and thus, create a equitable distribution. In the absence of significant fiscal options, incentivized policy to attract investors to States, would place greater emphasis on structural reforms. The macroeconomic effect of reduction in economic distortions, due to GST, would provide impetus to economic growth. Thirteenth Finance Commission estimates the impact of the
introduction of a GST, which would eliminate all taxes on production and distribution and rest on final consumption only. It is also expected that the opportunities of employment will be enhanced.

The manufacturing sectors would benefit from economies of scale. Output of sectors, including textiles and readymade garments and minerals, is expected to increase. The sectors, in which output is expected to decline, include natural gas and crude petroleum, iron ore, coal tar products and nonferrous metal industries. The results of the NCAER Study have also indicated GST’s positive environmental impact on the economy. Finally, a more rational tax system would lead to lesser disruptions to the market economy and more efficient distribution of resources within industry. To conclude, the implementation of GST will play an important role in the growth of Indian Economy.

The Twenty Sixth Issue (Vol.13 and No.2) of the SMART Journal of Business Management Studies consists of ten articles, written by authors of repute, on different themes of contemporary relevance. I hope readers would find the Journal academically challenging and strategically stimulating.

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