

THE SOCIAL & ECONOMICAL IMPACT OF GST ON INDIAN ECONOMY

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ABSTRACT: The Indian taxation system is based on the assumption of maximum social welfare. The Indian taxation system has been providing essential amenities to the citizens along with the financial support to the Central and State Governments. The Indian government has introduced various reforms in the taxation system for the development of national economy. These taxation reforms have helped the Indian economy to achieve the competitive advantage at Global Platform. However, a major tax reform has been introduced by the Government of India as Goods and Services Tax (GST) on July 1st, 2017 in a momentous midnight session (June 30th- July 1st, 2017) of both the houses of parliament. The GST has been introduced to ensure rational, transparent, uniform and comprehensive indirect taxation structure in India. However, the implementation of GST has been influenced the various sectors of economy in different perspective. The citizens of India have also experienced the impact of GST in various aspects of their lives. So, this paper attempts to analyze the origin, history and concept of GST. The paper has also highlighted the socio-economical impact of GST on India as nation. Further, the paper has also emphasized on the challenges in the implementation of GST.

KEY WORDS: Goods, Services, Tax, Social, Economical.

1. INTRODUCTION

After independence, the priority for the national architectures was to establish a self-reliant, self-sufficient and prosperous nation. Consequently, the Indian economy has been established on socialistic pattern. This socialistic approach has influenced the planning and implementation of economic policies by the Indian Government in the post independence era. The Indian taxation system had also been designed to facilitate the adequate financial and non financial resources to the government for discharging the responsibilities as per the Indian constitution. The Indian taxation system aimed at increasing revenue for public expenditure, employment generation, economic development, national welfare, and inflation control etc.

However, after Independence during 1951-58, the Indian economy has registered the growth rate of about 3.6% (Central Statistical Organization). Further, for the year 1981-88 the growth rate of Indian economy was only 4.9% [1]. In order to enhance the economic growth and development of India, the improvement in economic system and policies has

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emerged as a need of hour for the Indian policy makers and economists. The financial deficits have also necessitated the economic reforms in Indian economy. Subsequently, New Economic Policy (NEP), 1991 has been introduced for Liberalization, Privatization and Globalization of the Indian economy. These reforms have helped the Indian economy to achieve a distinguished position at global platform. Since 1991, the Indian economy has been growing at a higher rate [2]. Consequently, the Government has introduced various economic reforms in India to enhance the progress of Indian economy from time to time. These economic reforms have remarkably transformed the India into one of the fastest growing economy in the world. According to the International Monetary Fund, the growth of Indian economy will increase to 7.8% in 2019-2020, helping India to regain the position of the fastest growing economy in the world [3].

Recently, On July 1st, 2017, the Indian Government has introduced Goods and Service Tax (GST), a new economic reform in the Indian indirect taxation system. According to Kour, Chaudhary, Singh, and Kaur (2016); "Indirect tax is a tax indirectly paid to government but collected from intermediaries (such as retail stores) from the person who bears the ultimate economic burden of the tax (such as consumers)". This significant reform has transformed the Indian economy from the destination based taxation to the origin based taxation system. With the implementation of GST, the Indian indirect taxation system been segmented into 5 slabs i.e., 0%, 5%, 12%, 18% and 28%, for the purpose of tax collection [5]. The GST has been implemented to ensure rational, transparent, uniform and comprehensive indirect taxation structure in India. As per Anita Modi (2017) also, GST has help the Indian economy by providing standardization in tax calculation on goods and services. Further, GST has ensured uniform tax regime, elimination of double taxation, and more transparency in pricing. GST may enhance the disposable income of the Indian citizens through supporting GDP growth and eradicating black money. The GST is basically imposed on manufacturing, sale and consumption of goods as well as services at the national level [7]. It is a value added tax imposed at each stage in the supply chain [8]. GST has merged the various indirect taxes (Service Tax, Additional Excise duties, Surcharges, cesses, Central Sales Tax, VAT, etc.) into a single indirect tax [9]. Further, due to the implementation of GST, 13.2 lakh new dealers have registered themselves in the taxation system [10]. This may also help in increasing the GDP of the Indian economy due to high numbers of tax payers. According to Dani (2016), GST would liberate the manufacturing sector from cascading effect of taxes, resulting in improvement in the cost-competitiveness of goods and services. Further, GST may also help in reducing the prices of goods and services, thereby increasing their consumption. During a research by the NCAER (National Council of Applied Economic Research), it has been suggested that due to GST, GDP could increase by 0.9 to 1.7 percent [12]. However, many sectors of Indian economy have been influenced with the implementation of GST. Further, the GST has also influenced the life of an Indian citizen in different perspectives. Therefore, this paper attempts to analyze the socio-economical impact of GST on India as a nation. Further, the paper has also emphasized on the challenges in the implementation of GST.

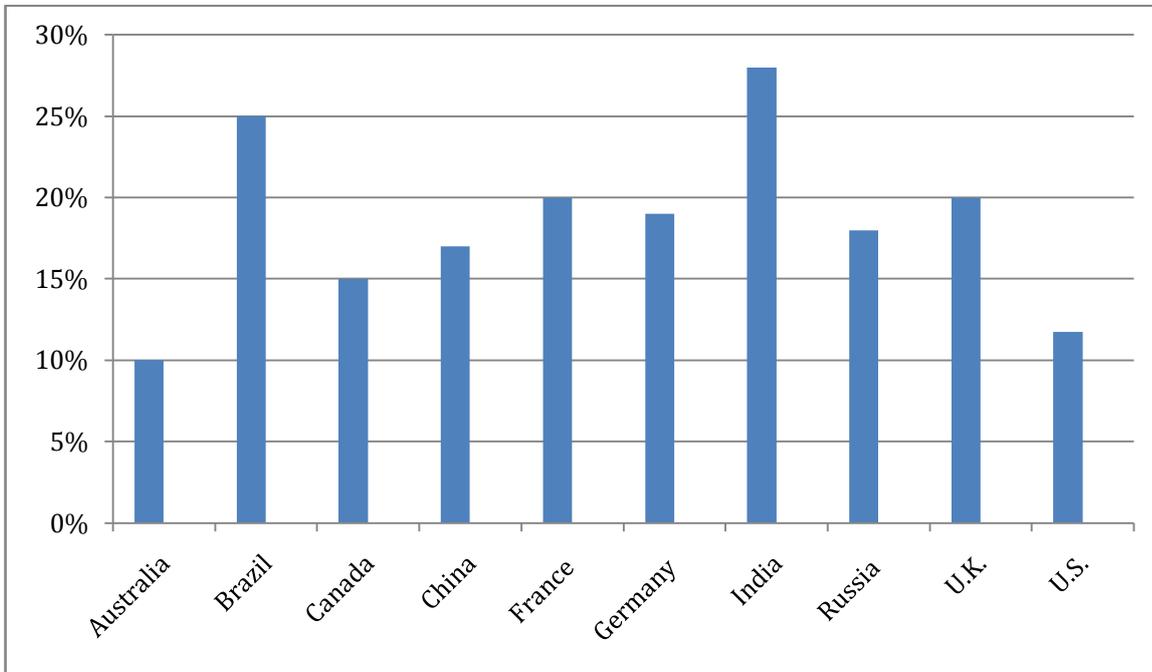
GENESIS

Initially, the GST has been introduced by France in 1954. Subsequently, many European countries have followed France, in implementation of GST in 1970s-80s. Later, countries like Canada, Singapore, Australia, and Malaysia have also implemented the GST in the year 1991, 1994, 2000, and 2015, respectively. China, also introduced the GST on few goods. As on date, approximately 160 countries have implemented GST/VAT [13].

In India, the Good and Service Tax has been implemented on July 1st, 2017. Initially, the GST was first reviewed by the Government led by Shri Atal Bihari Vajpayee in the year 2000. Further, a committee has also been constituted by the said government to develop a complete model of GST. The first proposal for national level GST has also been placed during

the 2006 budget speech in April, 2010. In Lok Sabha, the 115th Constitution Amendment Bill was introduced to levy GST on all goods and services in 2011. Further, 122th Constitution Amendment was passed in the Lok Sabha in 2014. Rajya Sabha has also passed the GST the on August 3, 2016. The GST has been approved by the President of India in September 2016. GST council was established on Sept 22nd 2016. Finally, the GST was launched in the India [14]. While comparing the GST, all around the world, it has been found that India has highest GST rates all over [15].

Fig 1: GST around the World



Source- List of countries by Tax -Wikipedia

Additionally, the above GST Chart depicts that, Australia has the lowest GST rates, that is, 10%. However, the countries like Brazil, Canada, France, and United Kingdom have the Goods and Service Tax rates of about 25%, 15%, 20%, 20%, respectively, which is comparatively much lower than the GST rates of Indian economy.

The salient features of GST in India are as under:

- (i) GST is applicable on “supply” of goods or services as against the concept of tax on the manufacture of goods or on sale of goods or on provision of services.
- (ii) GST is based on the principle of destination based consumption taxation as against the principle of origin based taxation.
- (iii) The GST to be levied by the Centre would be called Central GST (CGST) and that to be levied by the States [including Union territories with legislature] would be called State GST (SGST). Union territories without legislature would levy Union territory GST (UTGST).
- (iv) An Integrated GST (IGST) would be levied on inter-State supply (including stock transfers) of goods or services. This would be collected by the Centre so that the credit chain is not disrupted.
- (v) Import of goods would be treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties.

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(vi) Import of services would be treated as inter-State supplies and would be subject to IGST.

(vii) CGST, SGST /UTGST & IGST would be levied at rates to be mutually agreed upon by the Centre and the States under the aegis of the GSTC.

(viii) GST would apply to all goods and services except Alcohol for human consumption.

(ix) GST on five specified petroleum products (Crude, Petrol, Diesel, ATF & Natural gas) would be applicable from a date to be recommended by the GSTC.

(x) Tobacco and tobacco products would be subject to GST. In addition, the Centre would continue to levy Central Excise duty.

(xi) A common threshold exemption would apply to both CGST and SGST. Taxpayers with an annual turnover of Rs. 20 lakh (Rs. 10 lakh for special category States as specified in article 279A of the Constitution) would be exempt from GST. A compounding option (i.e. to pay tax at a flat rate without credits) would be available to small taxpayers (including to specified category of manufacturers and service providers) having an annual turnover of up to Rs. 50 lakh. The threshold exemption and compounding scheme would be optional.

(xii) The list of exempted goods and services would be kept to a minimum and it would be harmonized for the Centre and the States as well as across States as far as possible.

(xiii) Exports would be zero-rated.

(xiv) Electronic filing of returns by different class of persons at different cutoff dates.

(xv) Various modes of payment of tax available to the taxpayer including internet banking, debit/ credit card and National Electronic Funds Transfer (NEFT) / Real Time Gross Settlement (RTGS).

IMPACT OF GST OVER SOCIAL CONDITIONS

GST is an indirect tax reform, which has removed the inter-state commercial barriers and the double effects of taxes over the manufacturing and supply of goods & services in India. This may further reduce the competitions among the states. This unified tax structure has been implemented for entire nation. It may further help in the progress of Indian economy through better investment, high export, and employment generation. Further, GST being consumption based tax has been intended to ensure better administration of indirect tax structure in India. Through proper implementation of GST, the competitive position of India may also enhance at global level. For effective implementation and administration of indirect taxes, GST has been divided into 5 slabs, i.e. 0%, 5%, 12%, 18% & 28%.

The details of various product and services included in the different slabs of GST are as depicted below.

Table No. 1 Details of GST Slabs along with Product and Services

| GST Slabs | Product and Services |
|-----------|--|
| 0% GST | Fish, chicken, egg, milk, curd, fresh fruits & vegetables, natural honey, floor, newspapers, printed books etc. |
| 5% GST | Apparel below Rs. 1000/-, Packaged foods, footwear below Rs. 500/-, coffee, tea, spices, pizza bread, medicines, branded namkeens etc. |

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| | |
|---------|--|
| | Tailoring services, private LPG Distributor services, Restaurants tariff below Rs. 7500/-, Food Parcel, Transportation services etc. |
| 12% GST | Apparel above Rs. 1000/-, butter, cheese, packaged dry fruits, fruit juices, umbrella, mobile phones, ketchup & sauces, exercise books & note books, spoons, forks, Games-chess board, carom board, ludo, kitchenware, ornamental articles, synthetic filaments yarn, sugar cubes, Pasta, Diabetic food, Spectacles frames, cane or bamboo furniture, Drinking water packed in 20 litre bottle etc. Non AC hotels, business class air ticket. etc. |
| 18% GST | Footwear of cost more than Rs. 500/-, software, Biscuits, Cornflakes, Pastries, Jams ,ice creams, speaker, weighing machine, printer, raincoats, electric plug, cables, switches, plywood, article of wood, mattress, suitcase, detergents, shampoos, perfumery, fans, primary batteries, glass of all kinds, second hand medium and large cars etc. Admission to theme parks, water parks, restaurants having tariff more than Rs. 7500/-, telecom services, financial services etc. |
| 28% GST | Paint, wallpaper, water heater, dishwasher, washing machine, ATM, vacuum cleaner, automobile, Cinema etc. |

Source- The Economic Times; Jan 19th, 2018.

The above table depict that, with the implementation of GST, the tax slabs of various consumable items have been modified. Therefore, GST can be considered as a paradigm shift in the economic policy of the India. The products of basic necessities were placed in 0% GST slab. Further, goods and services required for maintaining the healthy social life were kept in 5% slab. Furthermore, the more luxurious products and services have been placed in the higher taxation slabs of GST i.e. 12%, 18% and 28%.

A significant difference has also been observed in the old taxes and new GST rates, implemented on goods and services in India. In a detailed study over 55 product or services, it has been found that the taxes on the basic commodities have been reduced to 0% in many cases. Further, the taxes have also been reduced in a large number of cases. However, the enhancement in taxes has been found in maximum number of cases of goods and services. A detailed report pertaining to the comparison of old rates and new GST rates in respect of 55 products and services, frequently used in day today life is as appended below.

Table No. 2 Tax Rates Before and after the implementation of GST

| S.No. | Name of Item | Old taxes | GST rates | Change |
|-------|---------------------------|-------------------------------|-----------|-----------|
| 1. | Fish | 0% | 0% | No Change |
| 2. | Chicken | 0% | 0% | No Change |
| 3. | Egg | 0% | 0% | No Change |
| 4. | Milk | 0% | 0% | No Change |
| 5. | Curd | 4% | 0% | Reduced |
| 6. | Fresh fruits & vegetables | 0% | 0% | No Change |
| 7. | Natural honey | 6% | 0% | Reduced |
| 8. | Un branded Flour | 3.5% | 0% | Reduced |
| 9. | Newspapers | 1% | 0% | Reduced |
| 10. | Printed books | 0% | 0% | No Change |
| 11. | Apparel below Rs. 1000/- | textile industry was exempted | 5% | Increased |
| 12. | Packaged food | 14.5%* | 5% | Reduced |
| 13. | Footwear below Rs. 500/-, | 10% | 5% | Reduced |
| 14. | Coffee | 6% | 5% | Reduced |
| 15. | Tea | 6% | 5% | Reduced |
| 16. | Spices | 6% | 5% | Reduced |
| 17. | Pizza bread | 12% | 5% | Reduced |

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| | | | | |
|-----|--|-------------------------------|-----|-----------|
| 18. | Medicines | Approx 5%* | 5% | No change |
| 19. | Tailoring services | 18% | 5% | Reduced |
| 20. | Private LPG Distributor services | 18% | 5% | Reduced |
| 21. | Apparel above Rs. 1000/- | textile industry was exempted | 12% | Increased |
| 22. | Butter | 6% | 12% | Increased |
| 23. | Cheese | 6% | 12% | Increased |
| 24. | Packaged dry fruits | 6% | 12% | Increased |
| 25. | Fruit juices | 12% | 12% | No Change |
| 26. | Umbrella | 5%* | 12% | Increased |
| 27. | Cell phones | 6% | 12% | Increased |
| 28. | Ketchup & sauces | 12% | 12% | No Change |
| 29. | Exercise books | 5%* | 12% | Increased |
| 30. | Drinking water packed in 20 litre bottle | 18% | 12% | Reduced |
| 31. | Footwear of cost more than Rs. 500/- | 21% | 18% | Reduced |
| 31. | Biscuits | 14.5%* | 18% | Increased |
| 32. | Cornflakes | 19.5% | 18% | Reduced |
| 33. | Jams | 12% | 18% | Increased |
| 34. | Ice-creams | 26% | 18% | Reduced |
| 35. | Speakers | 14.5%* | 18% | Increased |
| 36. | Weighing machines | 5%* | 18% | Increased |
| 37. | Printers | 26% | 18% | Reduced |
| 38. | Raincoats | 5%* | 18% | Increased |
| 39. | Switches | 5%* | 18% | Increased |
| 40. | Plywood | 5%* | 18% | Increased |
| 41. | Mattress | 14.5%* | 18% | Increased |
| 42. | Detergents | 14.5%* | 18% | Increased |
| 43. | Shampoos | 26% | 18% | Reduced |
| 44. | Fans | 14.5%* | 18% | Increased |
| 45. | Second hand medium and large cars | 28% | 18% | Reduced |
| 46. | Admission to theme parks, water parks | 28% | 18% | Reduced |
| 47. | Telecom services | 15% | 18% | Increased |
| 48. | Paints | 26% | 28% | Increased |
| 49. | Wallpapers | 18.5% | 28% | Increased |
| 50. | Water heater | 26% | 28% | Increased |
| 51. | Dishwasher | 26% | 28% | Increased |
| 52. | Washing machine | 14.5%* | 28% | Increased |
| 53. | Vacuum cleaner | 14.5%* | 28% | Increased |
| 54. | Automobile | 14.5%* | 28% | Increased |
| 55. | Entertainment | 30% | 28% | Reduced |

(Source- The Economic Times; Gsthelpindia.com; NDTV Business; DEALOANS; The Economic Times Blog; Financial Express, Commodity wise rate of tax under VAT Act*)

The GST has been implemented in India, in order to simplify and merge the indirect taxes structure in India. This major reform may help in effective administration and collection of indirect taxes, leading to more revenue generation for Indian economy.

However, the modified rates of indirect tax as GST have influenced the various segments of Indian economy. Further, the social units of the country, that is, the Citizens have also felt the impact of GST over the socio-economic parameters of their life.

Due to the implementation of GST, the tax rate has been reduced on various items including curd, natural honey, flour, newspaper, packaged food, footwear, tea, spices, pizza bread, cornflakes, ice-cream, printer, shampoo, second hand cars

etc. Further, taxes on services like tailoring, private LPG distributor services, admission to the theme parks and entertainment etc., have also been reduced with the implementation of GST. These product and services are essential and regularly used by the citizens in addition to the basic commodities. Further, due to the reduction of taxes over the theme parks and the entertainment, social life of the people will also be improved.

However, taxes have been increased in various cases like, apparels, Butter, cheese, packaged dry fruits, umbrella, cell phones, raincoats, plywood, mattress, detergents, telecom, water heater, dishwasher, vacuum cleaner, automobile, speaker etc. These items are, basically, the luxurious items and also considered as the status symbol.

Further, due to the implementation of GST, the inflation has increased many folds in past few months. Many business organizations had hiked the prices due to the ambiguity regarding GST, before its implementation. It has resulted into enhancement in CPI inflation from 1.54% (June, 2017) to 3.36% (Aug, 2017) [24]. Further, since July 2016, Indian economy has witnessed the maximum inflation rate in the month of December, 2017 [25].

In order to curb the influence of inflation over Indian economy, the GST law contains the provisions related to the anti-profiteering measures in order to move forward the profit to the consumers [26].

IMPACT OF GST OVER ECONOMICAL CONDITIONS OF INDIA

The major reforms through GST, has significantly influenced the Indian economy. Consequently, the impact of GST has also been felt in the various sectors of the Indian economy. The Central Statistical organization has forecasted the lowest economic growth rate of 6.5% for the Financial Year 2018, in last four years. Further, the Central Statistical organization has anticipated the negative growth (-3.3%) for the Indian manufacturing sector in the financial year 2017-18 as compared to FY 2016-17 [27]. In addition to above, a reduction has also been reported in the Indian Industrial Production [28].

Moreover, the contribution of agricultural sector to the Indian GDP, has reduced about 652.11 INR billion in the third quarter as compared to that of second quarter of the year 2017 [29]. The Central Statistics Office has also predicted the negative impact of GST over the agriculture and farm sector [27]. The GST has also influenced the Real Estate sector due to the enhancement in the cost of land, material and building [30].

Further, the Indian textile industry has also been severely influenced due to the implementation of GST. In Oct, 2017, the India's apparel export has reduced 39% in value terms. The textile import has increased many folds. Due to the implementation of 12% and 18% GST over handicraft items, the handicraft industry had experienced the shock [31]. Further, aviation sector had a yearly hit of Rs. 5700 crores [32]. The Indian banking sector had also been influenced by the GST.

With the implementation of GST on medicines, 1% tax has been reduced, resulting in cost reduction for the consumers. However, prices increase is expected over the diagnostics tests because of GST [33].

Due to reduction of new work orders, and low activity, the service sector has felt the down turn harshly, after the implementation of GST. In July 2017, the output of service sector has been reported at lowest level in comparison to past four years, immediately after the implementation of GST. The Nikkei India Services Purchasing Managers' Index (PMI), has indicated 45.9 for the service output in the month July, 2017 which was lowest since 2013 September [34].

On the other hand, GST, a significant step in Indian taxation has been established in the line of “One Nation, One market and one tax”. It has transformed the India into a single and unified market of 1.3 billion citizens [35]. As per a survey, 50% enhancement has been reported in the base of indirect taxpayer [36]. Further, Automobile and real estate sector has expected the benefit due to the implementation of GST [37].

In line with above, the detailed impact of GST over the various sectors of economy has been as appended below.

IMPACT OF GST OVER VARIOUS SECTOR OF INDIAN ECONOMY-

Indian economy is classified in three sectors – Agriculture and allied, Industry and Services. Agriculture sector includes Agriculture (Agriculture proper & Livestock), Forestry & Logging, Fishing and related activities. Industry includes 'Mining & quarrying', Manufacturing (Registered & Unregistered), Electricity, Gas, Water supply, and Construction. Services sector includes 'Trade, hotels, transport, communication and services related to broadcasting', 'Financial, real estate & professional services', 'Public Administration, defense and other services'. Further, every global, international and nation developments have significantly influenced on the Indian economy. Subsequently, the Indian economy has also been influenced due to the implementation of GST. The impact of GST implementation has also been felt in different segments of Indian economy. The details are as appended below:-

Agriculture

Agriculture, being the primary sector of Indian economy provides employment to large proportion of Indian workforce. Further, Agricultural sector has been contributing largely to the GDP of Indian economy. However, the contribution of agriculture sector to the Indian GDP has reduced to 3245.21 INR Billion in the third quarter of 2017, as of 3897.32 INR Billion in the second quarter of 2017 [39]. With the implementation of GST, the prices of various agricultural inputs have also increased due to enhancement in GST rates. Further, Central Statistics Office (CSO) has forecast about the negative impact of GST on agriculture and farm sector [38].

Manufacturing sector

According to RBI, the manufacturing sector of India had felt the adverse impact due to implementation of GST. RBI has also forecasted for unfavorable conditions regarding revival of Investment activity in manufacturing section due to implementation of GST. Further, a downfall has also been observed in the industrial production in India [40].

Real Estate

One of the most significant sectors of economy had an adverse impact due to GST. With the implementation of GST, buyers will be paying 12% GST, which will be 3.5% more as compared to earlier taxes (4.5 percent Service Tax and around 4 percent of VAT). Further, the costs of Land, material and building have also been increased due to GST [41].

Textile industry & handicraft

With the implementation of GST, India's apparel export has reduced 39% in value terms in October 2017. Further, GST has given a boost to textile import. Additionally, handicrafts industry has been badly hit due to implementation of GST. Earlier, handicraft was exempted from tax in more than 15 Indian states. However, 8 Indian states were imposing 5% VAT on handicraft items. At present, Handicraft has been bought within the GST tax slab of 12% and 18% [42].

Aviation sector and Banking Sector

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Due to implementation of GST, the aviation industry may experience the yearly hit of Rs. 5,700 crores, reported by domestic airlines to Finance Minister [43]. Further, GST has also severely influenced the Indian Banking Sector.

Pharmaceutical Industry

Earlier the medicines were taxed at about 13%, but fortunately only 12% GST has been introduced on medicines including ayurvedic. It may result in cost reduction for consumers. However, prices on diagnostics tests are expected to rise in present times due to GST [44].

Service sector

India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction. GST have a mixed impact on service sector. It is beneficial in some aspect but at the same time it is creating hurdle in ease of doing business. It is beneficial in items like seamless flow of credit, avoidance of double taxation but has increased a lot of compliance burden.

Due to reduction of new work orders, and low activity, the service sector has felt the down turn harshly, after the implementation of GST. In July 2017, the output of service sector has been reported at lowest level in comparison to past four years, immediately after the implementation of GST. The Nikkei India Services Purchasing Managers' Index (PMI), has indicated 45.9 for the service output in the month July, 2017 which was lowest since 2013 September [45].

Petroleum Industry

The petroleum industry may experience a boost in its sales, as on various petroleum products, the GST has been reduced to a large extent in comparison to the old taxes. Presently, the Petroleum products like peat; all ores & concentrates; kerosene PDS; tar, coal & ignite; and petroleum coke & petroleum bitumen are having GST 14.5%, 13.5%, 12%, 7%, and 9.5% less as compared to the old tax rates, respectively [46].

So, in short, it can be expected that the GST may emerged as a source of competitive advantage for Indian economy. However, the implementation of GST has posed a great challenge to the Indian government. For the implementation of dual GST system, central government requires the support and co-ordination of 29 state and 7 union territories, creating various political and economical issues (Dani, 2016). Further, various issues regarding e-commerce taxation are need to be addressed and resolved as earliest as possible (Kour, Chaudhary, Singh, and Kaur; 2016). The shift from Destination based taxed to the Origin based taxed has also emerged as a big challenge, for the business organizations [48]. Further, for proper implementation and administration of GST, adequate Information Technology (IT) infrastructure has also become the need of hour. The IT based skilled manpower having complete knowledge and training of GST has also been needed for achieving the objectives of GST [48]. Further, the training and development of citizens has also been required for registration, filling and payment of GST. Due to the enhancement in tax rates in many items, the Indian economy may experience the inflation.

CONCLUSION

GST is one of the major economic reforms introduced in Indian economy. It has led a significant transformation in indirect taxation system of India. Through GST, the Origin based taxation has been improved into a simple, transparent,

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unified and rational Destination based taxation system. Being the highest taxation in world, the GST has also influence the Indian economy and the consumers of Indian market to some extent. With the implementation of GST, the significant changes have been observed in the tax rate of many product and services. Further, the rate of inflation has also increased with the introduction of GST in Indian economy. The various sectors of Indian economy have also witnessed the negative growth. However, it has been expected by the economist that these negative impact of GST may diminish in short span of time, resulting it a source of competitive advantage for Indian economy in near future.

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