

Impact of GST on Indian Economy

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ABSTRACT

The most important indirect tax reform to change the Indian tax system emerged when the government enacted the Goods and Services Tax which became effective on July 1 2017. The primary objective of GST is to supplant value-added tax, excise duty, service tax, and sales tax. The new tax system provides better tax assessment methods than the previous tax systems which were in place. The GST system will remove all indirect tax systems because it creates a single tax system that will strengthen economic ties between various parts of the nation. This study aims to demonstrate how GST affects the Indian economy through its economic impact. The research demonstrates that GST will become a crucial driver of economic development in India when all citizens work together to execute it throughout the country. India functions as an open economy that generates economic growth through GST which increases government revenue and enhances the quality of life for its people. The government needs to invest significant resources into reducing total compliance expenses while implementing taxpayer-friendly changes that will benefit Indian taxpayers. The implementation of GST affects all business participants throughout the commercial industry because it applies to all business activities from trading to manufacturing and providing services. The national economy experiences extensive positive effects from GST implementation which develops both manufacturing and service operations in the country.

Keywords: *GST, GDP, Indirect Tax, Tax Reform, Economic Growth, Economy etc.*

I. INTRODUCTION

Tax administration needs to operate efficiently because this function represents the core requirement that supports economic progress for any nation. The GST Council has achieved significant progress during its four-year period of operation because it aims to replace all existing indirect taxes which operate at both central and state government levels. The tax reform process started during the 1990s when the government launched its program of economic liberalization. In 1991, a new economic policy was implemented that cut personal income tax rates. The year 2000 saw the implementation of a nationwide value-added tax system which operated at both central and state governmental levels. The government established a unique tax system called GST (Goods and Services Tax) which created a unified tax framework to replace all existing indirect taxes across the country on July 1, 2017. The central government has established the GST tax system after a long battle that lasted for ten years. The GST taxation system has removed various manufacturing taxes which used to apply to products until they reached the end consumer. The tax system exists as a unique and complete tax through which 'One Nation One Tax' establishes a system that boosts local and global market consumption. Merchandise and Offerings Tax functions as a multistage tax which charges tax on each stage of product value increase based on the final destination of the product. The GST tax system functions as a unified taxation system which divides tax revenue between state and central governments according to taxes collected from a single sale transaction.

The GST law consolidates all other taxes, such as Octroi and Central Excise VAT, into a single framework, representing a restructured form of the indirect taxation system. The primary objective of this bill was to establish a unified, collaborative, and indivisible Indian market to enhance the economy's strength and robustness. Political and economic factors become more affected by the Goods and Services Tax which serves as a significant economic force. The law creates interruptions in public spending because it raises product and service costs which people must pay. The country's political situation has an impact on the situation. The products and Services Tax (GST) categorizes products and services and imposes tax rates which start from 5 percent and reach 28 percent. The system provides users with benefits together with drawbacks. The world has experienced its most important tax reform during the last 40 years through GST however India uses it mainly to reach its tax revenue objectives. The world has experienced its most important tax reform during the last 40 years through GST however India uses it mainly to reach its tax revenue objectives. This research aims to elucidate the notion of GST and underscore its impact on India's economy.

II. REVIEW OF LITERATURE

From its inception, it has been contended that GST is a more straightforward and transparent tax system which will improve the national economy through increased economic output and productivity. The advantages of GST are fundamentally contingent upon its sensible design (Ahamad & Poddar, 2009). The Indian economy will benefit from a shift to streamlined GST because it requires less tax assessment work than the current indirect tax system according to Vasanthagopal's 2011 research. The Goods and Services Tax (GST) is an emerging favored kind of indirect taxation in Asia which experts predict will be implemented by more than 130 countries worldwide. The implementation of GST in India aids in eliminating economic distortions caused by the existing indirect tax system and is anticipated to promote an impartial tax structure that is unaffected by geographical locations (Kumar, N., 2014). The research conducted by Garg (2014) indicated that under GST the tax burden will be fairly distributed between manufacturing and services by implementing a reduced tax rate which expands the tax base and minimizes exemptions. The Goods and Services Tax (GST) in India represents a significant tax reform that aims to establish a world-class tax system by differentiating the treatment of the manufacturing and service sectors (Seharwat & Dhanda, 2015). Shefali (2016) demonstrated that the Goods and Services Tax will improve the current system of indirect taxes by removing inefficiencies which arise from the existing system of different tax rates. The implementation of GST will advance India towards development, benefiting numerous stakeholders and the entire nation (Rathod, 2017). The introduction of GST will create two different effects on the Indian economy which include positive and negative outcomes. The government needs to improve its system communication because better information will help boost economic development in the country (Das, 2017). The Goods and Services Tax (GST) provides multiple advantages which will enhance the Indian economy according to Abda (2017). The Goods and Services Tax (GST) represents a complete indirect taxation system which aims to support and advance economic development in a nation. This tax presents numerous advantages and disadvantages for startups and small enterprises in India (Shivani, 2018). Another study by Sandhu and Atwal (2019) stated that various indirect taxes are consolidated under one framework known as GST, which will serve as a foundation for the simplification of India's taxation system for service and commodity-oriented enterprises. The GST chamber together with government experts support GST implementation, which Indian traders will ultimately perceive as a deceptive practice. GST has the potential to transform business operations when people understand its benefits and organizations implement it through simplified procedures (Rajeshwari, 2021).

SIGNIFICANCE OF STUDY

The Goods and Services Tax (GST) serves as a major Indian tax system transformation which authorities established to promote economic development. The present research study provides important value to industrialists, investors, academicians, researchers, and the government at the present time because of GST implementation. The researcher intends to carry out this research study to show how GST impacts the Indian economy

III. OBJECTIVES OF STUDY

The objectives determine the things to be achieved by the study. The following objectives are formulated in the present study:

- To elucidate the concept and framework of the Goods and Services Tax in India.
- To emphasize the requirements of Goods and Services Tax in India.
- To elucidate the advantageous and disadvantageous outcomes of the Goods and Services Tax in India.
- To emphasize the impact of Goods and Services Tax on India's economic growth.

RESEARCH METHODOLOGY

The researcher collected secondary data from various sources which include books and national and international journals and government documents and publications and GST research materials from multiple websites to reach the study's objectives.

IV. FINDINGS & DISCUSSIONS

GST Concept & Model

The Good and Services Tax system for indirect taxation applies throughout the complete process of producing and selling goods and services. The Goods and Services Tax applies to both the sale and the consumption of goods and services. The three main types of GST include CGST SGST and IGST. The different types of GST are explained in the following sections:

- **CGST (Central Goods and Services Tax):** The central government collects the CGST on intrastate sales of goods and services.

- **SGST (State Goods and Services Tax):** This tax is levied by the state government on the intrastate supply of goods and services.
- **IGST (Integrated Goods and Services Tax):** The IGST tax is levied when goods and services are exchanged between two states. The federal and state governments split the tax revenue.

The given definition shows that GST includes two separate modeling components which include Central Goods and Services Tax and State Goods and Services Tax. The Central Goods and Services Tax includes all indirect taxes which the central government imposes including Central Excise Duty and Additional Excise Duty and Excise Duty under the Medicinal and Toilet Preparation Act of 1955 and Service Tax and Central Sales Tax and Countervailing Duty and Special Additional Duty and all central cesses. The State Goods and Services Tax includes all indirect taxes which state governments impose including State VAT and Sales Tax and Entertainment Tax and Luxury Tax and Lottery Tax and Purchase Tax and various state cesses and Octroi and Entry Tax. The Integrated Goods and Services Tax serves as a GST element which applies to all interstate transactions of goods and services.

A diagram Supporting concept of the GST model also has been introduced within the paper in Figure 1 :

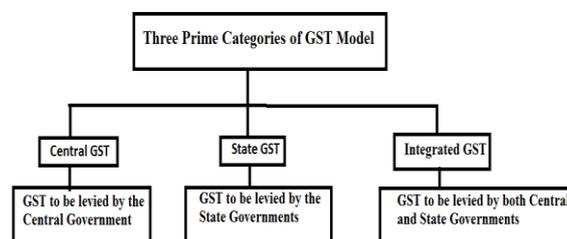


Figure 1: Model of GST

Source: www.taxguru.in

GST Tax Slabs in India

The GST council has established four kinds of GST tax slabs in India which include 5% 12% 18% and 28% tax rates. The GST council has categorized approximately 1300 items and 500 services into four tax brackets. The statement excludes the 3% tax on gold and the unique 0.25% rate on raw precious and semi-precious stones under GST.

Items not affected by GST

Certain items which include petrol high-speed diesel aviation turbine fuel crude oil electricity and human-consumable alcohol and natural gas remain outside the scope of GST tax regulations.

Needs of GST in India

The previous indirect tax system had multiple restrictions which led Indian authorities to implement GST for economic purposes. The following section describes the disadvantages which were associated with prior indirect tax systems:

- **High administrative cost:** The indirect tax system of the country had multiple tax elements which applied to products and services throughout their complete supply chain from production to distribution. The different tax system required businesses to spend more money on tax administration and compliance activities which resulted in higher tax avoidance rates and legal disputes that caused unanticipated delays in their operational processes.
- **Globalized Promotion of indigenous goods and services:** The total effect of different tariffs has caused manufacturing expenses for domestic products and services to rise significantly. The increased expenses prevented international marketing efforts for these products while simultaneously decreasing their sales profit margins.
- **Suppressing of demand:** Multiple taxes combined to create additional tax costs which applied to particular products and services because both VAT and excise/service tax were charged on the same base value. The higher tax requirements reduced consumer interest in particular products and services because demand for them reacted to price changes, which prevented these sectors from growing.
- **Fragmented structure of markets:** The Central Sales Tax (CST) and Entry Taxes create tax barriers which prevent products from moving between states in India, thus obstructing the creation of a unified national

market. The combined effects of CST and state VAT have divided India into separate state markets which create obstacles to efficient production and distribution.

- **Increasing tax disputes:** The separate taxation system for goods and services enables supply chain intermediates to function according to multiple legal systems until their operations reach the final customer delivery stage. Supply chain partners experienced tax disputes because their interdependent relationships created complex challenges. It was difficult to establish which tax rate applied to intangible products and telecommunications services and IT products between product tax rate and service tax rate.
- **Tax inefficiencies leads to protectionism:** The domestic tax system inefficiencies force the government to keep high customs taxes which protect local businesses but this practice causes higher expenses and makes exports less competitive.
- **Economic deformation:** The extensive taxes on inputs at various stages of production created an incentive for businesses to adopt vertical integration as their preferred strategy because they wanted to reduce their tax expenses.

Impact of GST on Indian Economy

The Goods and Services Tax unifies all indirect taxes imposed by both central and state governments to improve India's economic performance in domestic and international markets. The implementation of GST resulted in both positive and negative effects on the economy. The researcher has provided a complete yet brief explanation of all research elements through his work:

- **Favourable aspect of GST:** Some beneficial effects have been seen in the Indian economy due to the implementation of GST, which are explained as under:
 - **Barrier free tax structure:** The implementation of GST has completely removed the sequential effects of taxation which used to increase production and distribution expenses for goods and services. The economy will benefit from a tax system which has no barriers and operates without restrictions because it will reduce supply chain expenses and boost economic development throughout the country.
 - **Control over inflation:** The input tax credit from GST has resulted in a 15 percent to 20 percent decrease of production expenses for businesses. The implementation of GST benefits the economy because it creates fair product pricing which helps to control inflation.
 - **Enhancing tax revenue:** The GST tax base and compliance rules operate in a clear and organized manner which helps the government to boost its tax revenue. March 2022 recorded its highest gross GST revenue with a total of Rs. 142095 crore which surpassed the previous record of Rs. 140986 crore from that same year. According to the FIRMS report the GDP (Gross Domestic Product) ratio will increase by percent because of GST enforcement which will generate extra annual revenue between Rs. 70000 crore and Rs. 80000 crore for the economy.
 - **Conducive for economic growth:** The GST system eliminated all previous tax distortions which now allow the economy to attract more effective investments. The country will achieve sustained economic growth through its straightforward tax system which will attract more investments.
 - **Benefits of comparative cost:** The Goods and Services Tax (GST) has eliminated inter-state sales tax payments which enable manufacturing businesses to achieve maximum production capacity and fully utilize their operational resources. If all manufacturing concerns work at full capacity then whole industry will be benefited from the benefits of comparative cost.
 - **Rising of GDP rate:** GST eliminates the problem of multiple taxes which accumulate through special tax regulations because it creates a single unified tax system. The National Council for Applied Economics and Research NCAER report shows that GST will increase annual GDP growth between 0.9 percent and 1.7 percent.
 - **Removing inequalities between markets:** The Goods and Services Tax eliminates different tax rates by applying identical tax rates to all markets which results in equal retail prices for all products and services.
 - **Reducing tax evasion:** The government imposes GST on all transfers that take place. The current tax system makes it hard for businesses to engage in any form of tax evasion. E-commerce businesses face restrictions against tax evasion because they operate from locations with lower tax rates.
- **Unfavourable aspect of GST:** Efforts towards the introduction of GST were apparently unstoppable, and great strides were taken in the direction of its implementation in 2009:
 - **Increasing the price of essential goods and services:** Various essential products and services, which from taxation have been exempted hitherto, could actually increase in price due to the newly proposed GST.
 - **Rising cost of real estate market:** The real estate sector has experienced adverse effects from the implementation of GST. The implementation of GST has increased new home prices by 8 percent which leads to a 12 percent decrease in demand for this sector.
 - **Reduction in working capital:** Firms now need to pay taxes on their complete input purchases because GST has been implemented. The tax obligations of the company will require them to acquire additional working

capital to handle tax payments during every transfer process. Enterprises must continue their operations to maintain sufficient working capital resources.

- **Increasing transfer pricing issues:** The GST system requires permanent tax assessment of all business transactions which results in increased costs for all goods and services during interdepartmental transfers.

GST & Economic Growth

The implementation of GST has resulted in better production resource distribution which includes both land and capital distribution and its impact on national production and export growth. The textile and readymade garment manufacturing units together with other mineral production facilities and organic heavy chemical plants and industrial machinery factories for food and beverage processing would gain advantages from high production levels. The expected industry output decline will affect natural gas and crude petroleum production together with iron ore and coal tar products and nonferrous metal industries. Vijay Kelkar the Chairman of the 13th Finance Commission said that GST will increase the Indian economy by \$15 billion which equals approximately Rs. 73,000 crores every year. Another NCAER study showed that GST will lead to a major economic transformation which will increase Indian GDP by 1.0 to 3.0 percent.

The GST system provides greater visibility for its operations when compared to the earlier legal framework. The system will generate more government revenue while its successful execution will diminish corruption rates. The implementation of GST has resulted in electronic invoices becoming a major source of revenue generation. The GST system has simplified both tax liability calculations and the process of matching initial tax credit rules. The March 2022 revenue for the period reached 15 percent above the previous year while it exceeded the 2020 March GST revenue by 46 percent. In March 2022, GST revenues from exported goods 25 percent and 11 percent from domestic transactions had more than the GST revenues of March 2021. Through GST, the recovery from business activity has been doing at faster pace as total number of e-way bills generated in the month of February 2022 was Rs 6.91 crore as compared to e-way bills of Rs 6.88 crore of January 2022. The gross GST collection for the fourth quarter of Financial Year 2021-22 has been recorded at Rs 1.38 lakh crore monthly whereas it had been recorded at Rs 1.10 lakh crore, Rs 1.15 lakh crore and Rs 1.30 lakh crore monthly respectively in the first, second and third quarter of this year. The Indian Finance Ministry states that the GST framework will provide major advantages to the Make in India initiative because it allows businesses to receive input tax credits for their capital equipment.

The GST system has brought about its strongest effects which have impacted multiple aspects of the economy including the gross domestic product. The government removed excise duty exemptions which had previously permitted manufacturers to operate tax-free but they now serve as a new tax stream which enhanced government income and resulted in a GDP boost. The GDP has the tendency to loom on the shoulders of revenue generated by the economy in a year. The GST system provides a valuable benefit because it enables GDP growth through its 2 percent increase which supports the government goal to enhance per-capita income for all citizens. The GST system will boost government indirect tax revenue because it will improve tax compliance through strict enforcement which will expand the number of taxpayers who will contribute to government revenue. The government will use its extra revenue to fund urban development projects and financing which will create a comprehensive financial situation.

V. CONCLUSION

The implementation of goods and services tax (GST) represents an essential achievement which modernizes indirect taxation systems used throughout India. The central and state tax system has transformed into a single tax which enables businesses to operate across India without facing double taxation. The administration of this indirect tax has become easier because its basic structure enables better management of tax collection processes. India has established goods and services tax after accomplishing all necessary requirements for its implementation. The government uses GST as its main economic strategy which will only become clear through time. The transition to GST system will produce multiple economic advantages for the country. The Indian economy has now entered the GST system which requires us to prepare for its implementation. India has now adopted the worldwide accepted taxation system which other countries already use. The implementation of GST in India has successfully eliminated economic distortions from previous indirect tax systems while creating a unified national marketplace. The GST system created a world-class tax system through its different treatment of manufacturing and service sectors which now exists in India. The "GSTNET" system enables electronic tax return processing and refund processing and payment processing which reduces corruption and tax evasion by removing all human contact.

The Goods and Services Tax (GST) enables businesses to receive continuous tax credits which start from production and continue until retail. The government's overall revenues would improve as GST will boost exports and create more jobs and drive economic development. The argument states that GST brings positive effects to multiple industries while it will become a historic achievement for the Indian economy after the whole

nation works together to achieve its effective implementation. The manufacturing and service industries of the country show evidence of GST bringing positive benefits which expand over time. India is a developing economy which will gain from GST as a national revenue source to improve its citizens living conditions. The government needs to make extensive efforts which will reduce compliance expenses while establishing tax reforms that will benefit all taxpayers.

VI. RECOMMENDATION

The major suggestions that would help enhance economic growth and balance economic conditions for the taxpayers in India are:

- Reducing GST registration procedures will enable businesses to operate their activities in the most effective manner which will benefit both people and economic progress.
- A little relief has been granted by small scale operators for they do not boast of higher end financings and resources to smooth their daily operations.
- India needs to reduce its rates through rationalization since this will improve its international competitiveness while supporting compliance requirements and driving economic development.
- The economy requires increased demand which can be achieved by maintaining the highest GST rate at 18 percent while limiting 28 percent GST application to a restricted number of products.
- For growing momentum in economic growth, there seems a possibility of the possibility of including exempt items into the folds of GST.
- If there is the shortage of the GST/VAT waiver interest rates, the most excellent path that ought to be followed would be in converting regulations specifying the sum for unpaid taxes in terms of penalties.
- It is suggested that an output increase can be pursued in the collection of GST revenue, with severe action taken on tax evasion.
- Finally, suggest adopting proper tax technologies known best to taxpayers as right and address the issues related to their business's functioning operations.

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