



A Study Of Impact Of GST On Indian Economy

Monika chhatwani, Dr.Pradeep Asthana

Student of MBA in Amity University Raipur Chhattisgarh
Department of Amity Business School, Faculty of Economics.

1. Introduction

Goods and Services Tax (GST) was implemented in India on July 1, 2017, with the aim of simplifying the tax structure, improving compliance, and increasing revenue collection. GST has replaced multiple indirect taxes such as Value Added Tax (VAT), excise duty, and service tax. The GST system has created a unified, transparent, and efficient tax system across the country. The implementation of GST has impacted various sectors of the Indian economy, with both positive and negative implications.

This research paper seeks to analyze the impact of GST on the Indian economy. It is essential to study this topic as GST is a significant and transformative tax reform in India and will have far-reaching implications on the Indian economy. This research study will help to understand the various effects of GST implementation on the Indian economy.

The Impact of GST on the Indian Economy

Positive Impacts

a) Increased Tax Revenue - The implementation of GST has increased tax revenue collection for the Indian government. With a wider tax base, more businesses now pay GST, and the government has more comprehensive data on their transactions. Several reports confirm that India's overall tax collections have improved since GST's implementation.

b) Ease of Doing Business - GST has also improved the ease of doing business in India. Before GST, businesses had to deal with multiple tax authorities and tax rates. This resulted in a complex tax system that was difficult to understand and manage.

1. Overview of Goods and Services Tax (GST)

1.1 Definition and Key Features

Goods and Services Tax (GST) is an indirect tax imposed on the supply of goods and services by the central government and state governments. GST is a value-added tax, which means that taxes are imposed on value addition at each stage of production and distribution until the final sale.

The key features of GST include:

- A single tax system that replaces multiple indirect taxes.
- A destination-based tax, which means that taxes are levied at the place of consumption.
- Dual taxation system, comprising of central GST (CGST) and state GST (SGST).
- Input tax credit, which allows businesses to claim a tax credit for the taxes paid on their purchases.

1.2 Evolution and Implementation in India

The idea of GST was first introduced in India in 2000 by the then-Prime Minister Atal Bihari Vajpayee. However, it was not until 2017 that GST was implemented in India. The bill for GST was passed in the parliament on August 8, 2016, and it was implemented on July 1, 2017.

The implementation of GST in India was a significant economic reform that aimed to simplify the tax structure and create a unified, efficient, and transparent tax system across the country. The GST council, comprising representatives from both the central government and state governments, was established to oversee the implementation of GST in India.

Types of GST Charged in India

GST is primarily categorised into three different types, i.e. CGST, SGST, and IGST.

- **Central Goods and Services Tax (CGST):** The Central government collects the CGST tax, which is levied on the intra-state supply of products and services. The introduction of the same led to the abolition of central taxes such as central excise duty, customs duty, service tax, among others.
- **State Goods and Services Tax (SGST):** As the name implies, SGST is that component of the tax which goes to the state government. SGST is applicable on goods and services sold within the state. This has, in turn, replaced several other taxes, such as the value-added tax (VAT), entertainment tax, entry tax, and state sales tax, among others.
- **Integrated Goods and Services Tax (IGST):** Integrated GST is charged on products and services that are produced and consumed in two different states. The revenue collected from IGST is distributed among the relevant states. IGST was implemented with the intention of streamlining the tax process.
- **Union Territory Goods and Services Tax (UTGST):** UTGST, as the name suggests, is applicable on goods and services supplied within the union territories of India, namely Chandigarh, Andaman and Nicobar Islands, Daman and Diu, Dadra and Nagar Haveli, and Lakshadweep. UTGST is collected in addition to CGST instead of SGST.

Advantages of GST

1. Benefits for Traders and Manufacturers

- Compliance becomes easy
- Brings uniformity in tax rates and structure
- Removal of the cascading or compounding effect caused by the imposition of multiple taxes
- Paves the path for the development of a common national market

2. Benefits for Central and State Government

- It is relatively easier to implement and administer
- An improvement in compliance and revenue collections
- Better revenue effectiveness

3. Consumer Benefits

- Payment of a single and transparent tax
- Reduction of the burden on taxpayers

1.3 GST Structure and Tax Rates

GST is structured around a four-tier tax system, with tax rates ranging from 5% to 28%.

- 5% tax rate is applicable to essential items, such as food grains, and health-related products.
- 12% and 18% tax rates apply to essential goods, such as medicines, clothes, and packaged foods.
- 28% tax rate applies to luxury goods and services, such as cars, electronics, and five-star hotels.

In addition to these four tax slabs, some goods and services are exempted from GST, such as healthcare and educational services.

Overall, the GST structure and tax rates aim to simplify the tax system and ensure that the tax burden is distributed equally across all sectors of the Indian economy.

1.1 Challenges of GST-

- **Robust IT Network:** Government has already incorporated Goods and service tax network (GSTN). It has to develop the entire IT system of GST portal which will ensure technology support for Registration, GST ,tax payments etc.
- **Extensive Training to Tax Administration Staff:** As GST is quite different from existing system so it requires extensive training to tax administration staff regarding the legislation procedure.
- **Understanding GST intricacies is not easy:** The wholesaler would be required to deposit the CGST into a central government account and the SGST into the account of the state government. Every docket from buyers and sellers intend be comprise the GST system suitably to ensure that benefits accrue the full chain.

1.4 Impact of GST on Manufacturing Sector

GST has had a significant impact on the manufacturing sector, which is a major contributor to the Indian economy. Some of the implications of GST on the manufacturing sector are:

Simplification of Tax Structure

GST has simplified the tax structure for the manufacturing sector by replacing multiple indirect taxes such as excise duty, service tax, and VAT, with a single tax system. The earlier tax regime had a complex tax structure that varied from state to state; however, GST has created a more uniform tax structure across the country. This has simplified the compliance process for manufacturers since they do not have to comply with different tax rules in different states.

Removal of Cascading Effect

GST has eliminated the cascading effect of taxes in the manufacturing sector, which had been a major concern for manufacturers. With the earlier tax regime, manufacturers had to pay taxes on taxes, which increased the overall tax burden and reduced the competitiveness of Indian manufacturers. GST has created a more transparent tax system and removed the cascading effect, which has reduced the overall cost of production for Indian manufacturers and improved their competitiveness both domestically and globally.

Increased Efficiency and Competitiveness

GST has led to increased efficiency and competitiveness for the manufacturing sector. The input tax credit (ITC) is a significant feature of GST that allows businesses to claim tax credits for taxes paid on their purchases. This has encouraged manufacturers to maintain proper documentation and reduce the overall cost of production, leading to improved efficiency and competitiveness.

Challenges and Concerns

Despite the benefits mentioned above, there have been some concerns from manufacturers about the implementation of GST. One major concern is the complex compliance process, especially for small and medium-sized enterprises (SMEs) that may not have the resources to navigate the complex tax system. Additionally, the increase in tax rates for certain goods, such as the 18% tax rate on mobile phones, has affected the competitiveness of certain manufacturers.

There have also been challenges regarding the implementation of electronic filing and matching of returns, which require a robust IT infrastructure and the availability of GST-compliant software. Overall, the effective implementation of GST would be crucial for the manufacturing sector to continue its growth momentum and remain competitive in the global market.

1.5 Impact of GST on Services Sector

GST has had a significant impact on the services sector, which is a vital component of the Indian economy. Some of the implications of GST on the services sector are:

Tax Compliance and Formalization

GST has formalized many services that were previously informal, which has brought them under the tax net and ensured tax compliance. For example, small businesses and service providers such as restaurants, salons, and fitness centers have now registered with GST and are in compliance with tax regulations. This has transformed the services sector by making it more structured, facilitating better accounting practices, and enabling more transparent transactions.

Expansion of Tax Base

GST has expanded the tax base by encompassing several services that were previously exempt from taxes, such as educational services and healthcare services. By incorporating these services into the tax net, GST has increased the overall tax revenue for the government. This expansion of the tax base has also led to the elimination of the cascading effect of taxes and reduced the overall burden of taxes on the services sector.

Boost to Service Exports

GST has boosted service exports from India, which have been growing at a significant pace. The input tax credit (ITC) provision under GST allows exporters to claim a refund of GST paid on inputs such as rent, electricity, and employee salaries. This has made exports more competitive, enabling exporters to price their services competitively and enhance profitability.

Challenges and Concerns

Despite the benefits mentioned above, there have been some challenges and concerns related to the implementation of GST in the services sector. One major concern is related to the high GST rates for certain services such as telecom and banking. The high tax rates have led to a rise in the cost of services, resulting in reduced consumption.

Another concern is related to the delays in GST refunds, which have impacted the working capital of small businesses in the services sector. The complexities of GST-related documentation for services such as software and intellectual property rights have also created compliance issues for businesses and may be preventing their growth.

1.6 Impact of GST on Trade and Logistics

Reduction of Barriers to Interstate Trade

The GST implementation in India has significantly reduced the barriers to interstate trade. Earlier, businesses had to pay various taxes at each state border, leading to delays and added costs. GST has combined all these taxes, making it easier and cheaper for businesses to transport goods across state borders. It has also led to the consolidation of smaller warehouses and expansion of larger ones, resulting in increased economies of scale.

Improved Supply Chain Efficiency

GST implementation has led to an improvement in supply chain efficiency as the tax system has become more robust and streamlined. With a unified tax regime, there is greater uniformity in tax compliance, making it easier for traders to conduct business. This has resulted in shorter turnaround times for goods movement and reduced inventory costs for companies.

Streamlined Logistics and Transportation

GST has also streamlined logistics and transport operations in India. Earlier, logistics companies had to spend a considerable amount of time and resources on tax compliance. However, with the introduction of GST, there has been increased clarity on the taxes to be paid and the applicable rates. This has resulted in greater standardization and transparency, leading to an overall improvement in the efficiency of logistics and transport services.

Challenges and Concerns

Despite its numerous advantages, the implementation of GST in India has also presented some challenges to the trade and logistics sector. Some of the notable challenges include:

- The need for IT infrastructure to enable smooth and efficient GST implementation, which may increase the costs of doing business.
- Frequent changes and updates in GST regulations can lead to confusion and lack of clarity among traders, especially those who are not well-versed with GST compliance.
- The introduction of e-way bills to track the movement of goods across state borders has led to additional compliance requirements for businesses.
- The lack of uniformity and harmonization in the classification of goods and services across states can result in differences in tax rates, leading to additional compliance costs for businesses operating in multiple states.

1.7 Revenue Generation and Tax Compliance

Increase in Tax Revenues

One of the major objectives of implementing GST in India was to increase tax revenues. With a simplified tax structure and greater compliance, GST has been successful in increasing tax revenues for the government. According to the Central Board of Indirect Taxes and Customs (CBIC), the GST revenue collected for the financial year 2020-21 was over INR 1.41 lakh crore per month, indicating a steady increase in GST collections since its implementation.

Expansion of Taxpayer Base

GST has also expanded the taxpayer base in India. Earlier, smaller businesses were exempt from VAT and service tax, leading to a smaller taxpayer base. However, GST has brought smaller businesses under its purview, leading to an increase in the taxpayer base. This has resulted in a more inclusive and comprehensive tax system.

Impact on Tax Evasion and Black Economy

GST has had a significant impact on tax evasion and the black economy in India. With the introduction of GST, there is greater transparency in the tax system, making it harder for businesses to evade taxes. Additionally, the robust IT infrastructure and real-time tracking of transactions under GST have made it easier for tax authorities to detect and punish tax evaders. This has resulted in a reduction in the size of the black economy in India.

Challenges and Concerns

Despite its successes, GST implementation has also presented some challenges to tax compliance in India. Some of the notable challenges include:

- Complexity in the GST compliance process: Many businesses in India find the GST compliance requirements to be complex and time-consuming and may have difficulty navigating the system, especially smaller businesses and those operating in multiple states.
- Increased compliance costs: While GST has led to greater tax compliance, it has also led to an increase in compliance costs for businesses. These costs include the hiring of tax professionals, the cost of IT systems, and additional record-keeping requirements.

- Challenges in GST audits: With the bulk of GST compliance being done electronically, there are concerns that GST audits may not be adequate to detect all discrepancies and errors, leading to potential revenue losses for the government.

1.8 Inflationary Impact of GST

Changes in Price Levels

One of the main concerns with the implementation of GST was its potential impact on prices. Initially, there was a fear that GST would lead to an inflationary surge in prices as businesses would pass on the taxes to consumers. However, recent studies suggest that the overall impact of GST on prices has been marginal. While there have been some price increases in some sectors, such as real estate and construction, these have been offset by reductions in other sectors such as transportation and logistics.

Effect on Consumer Spending

The overall impact of GST on consumer spending is mixed. While the tax regime has made some goods and services cheaper, others have become costlier. This has resulted in a temporary dip in consumer spending in some sectors. However, the long-term impact of GST on consumer spending is expected to be positive as GST reduces the cost of compliance, leading to a reduction in prices and increased consumer spending.

Impact on Different Sectors

The impact of GST on different sectors in India has been varied. Some sectors, such as manufacturing and logistics, have seen significant growth due to GST's streamlined tax structure. These sectors have become more competitive, leading to increased investment and employment opportunities. However, other sectors such as real estate, have faced challenges as there have been fluctuations in demand due to increased tax levels.

Challenges and Concerns

Despite some success, the implementation of GST in India has presented some challenges to inflationary pressures. These include:

- Multiple tax rates: GST has multiple tax rates, which can lead to confusion among businesses and consumers, leading to price fluctuations.
- Input tax credits: Businesses may have difficulty claiming input tax credits under GST, leading to higher costs and prices.
- Compliance challenges: Smaller businesses may face compliance issues under GST, leading to potential price hikes.

Overall Economic Growth and Welfare

Contribution to GDP Growth

The implementation of GST has contributed significantly to GDP growth in India. One of the primary objectives of GST implementation was to boost the economy's growth rate. According to data from the Ministry of Finance, GDP growth rate has increased from 6.7% in 2017-2018 to 8.2% in 2018-19, indicating a positive impact of GST on the economy.

Impact on Investment and Employment

GST has had a positive impact on investment and employment in India. The simplified tax structure and increased transparency have led to greater investor confidence, resulting in increased investment in several sectors, including manufacturing, logistics, and infrastructure. GST has also led to the expansion of the formal sector, leading to an increase in employment opportunities.

Sectoral Analysis of Growth Patterns

Different sectors have experienced different growth patterns under GST. Sectors such as manufacturing, logistics, and construction have seen significant growth due to the streamlined tax structure. However, other sectors such as real estate and the informal sector have faced challenges due to increased tax levels.

Challenges and Concerns

Despite its successes, GST implementation has also presented some challenges to overall economic growth and welfare in India. Some of the notable challenges include:

- The potential impact of GST on inflation and consumer spending.
- Compliance challenges for smaller businesses, leading to additional costs and reduced competitiveness.
- The need for greater harmonization of tax rates across states.

Literature review

Ehtisham Ahmed and Satya Poddar (2009) studied “Goods and Service Tax Reforms and Intergovernmental Consideration in India” and found that GST introduction will provide simple and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Dr. R. Vasanthagopal (2011) studied “GST in India: A Big Leap in the Indirect Taxation System” and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Jana V. M., Sarma & V Bhaskar (2012) studied “The Road Map for implementation of Goods and Service Tax”. He found that the steps to be undertaken to implement the comprehensive tax system i.e., GST. The authors have thrown light on the constitutional amendment required for the implementation of GST in India.

Research Methodology

Research Design-This study is a descriptive research design that utilizes secondary data sources to analyze the impact of GST on the Indian economy. The study will analyze data from government reports, academic articles, and newspapers. The research design aims to provide a comprehensive analysis of the impact of GST on various sectors of the Indian economy

Findings

The analysis of the impact of GST on the Indian economy showed that there were several positive impacts, including an increase in tax revenues, expansion of the taxpayer base, and improvements in the ease of doing business. The Indian government's tax collection has improved since the implementation of GST, and there is evidence of increased compliance among taxpayers.

Despite the positive impacts, the study found that there were challenges associated with the implementation of GST. These challenges included a complex compliance process and difficulties with claiming input tax credits. The study also highlights that the GST Council needs to address the concerns of small businesses and address the anomalies in the GST rate structure.

Limitations

This study has some limitations that should be taken into account while interpreting the results. Firstly, this research paper is a descriptive study based on secondary data sources, which may be subject to limitations such as data accuracy, validity, and reliability. Additionally, the study relies on government reports, academic articles, and newspapers, which may not include the perspective of small and medium-sized businesses and local governments. Moreover, the study's sample is limited to the Indian economy, and therefore the findings may not be generalizable to other economies with different socio-economic and institutional environments. Finally, the study's timeframe is limited to the period after the implementation of GST in India,

Recommendations

Based on the findings of the study, several recommendations are made that may improve the effectiveness of GST in the Indian economy. First, the GST Council needs to address the concerns of small and medium-sized businesses to reduce their financial and administrative burden. Second, the GST Council should simplify the compliance process. Finally, there is a need to reassess the GST rate structure to address the anomalies that exist in the current rate structure.

Conclusion

The implementation of Goods and Services Tax (GST) in India has had both positive and negative impacts on the Indian economy. On the positive side, GST has led to an increase in tax revenue collection, an expansion of the taxpayer base, and improvements in the ease of doing business. Despite the positive impacts, challenges such as complexity in the compliance process and difficulties in claiming input tax credits hinder the effective implementation of GST. The GST Council must address these concerns and reassess the GST rate structure to ensure a level playing field for all businesses. It is recommended that the GST Council addresses the concerns of small and medium-sized businesses, simplifies the compliance process, and makes necessary changes in the GST rate structure to ensure clarity and equality. Further research is needed to (i) evaluate the long-term impact of GST on the Indian economy and (ii) assess the effectiveness of strategies and policy interventions designed to enhance the effectiveness of GST in the Indian economy.

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