GST AND ITS IMPACT ON INDIA’S GDP

Dr.B.EZHILARASU

ASSISTANT PROFESSOR OF ECONOMICS
DEPARTMENT OF ECONOMICS
PRESIDENY COLLEGE
CHENNAI – 600 005
TAMILNADU, INDIA

Abstract: This research paper has been carried out how GST affects the cost of services in India and to study the impact of GST on India’s GDP. The Goods and Services Tax, the largest tax reform introduced in India on July 1, 2017, which is now an integral part of Indian economy. In place of various tax laws like excise duty, service tax, VAT, CST, etc., a new and unified tax structure is used for indirect taxation. The new tax regime is undoubtedly intended to eliminate the cascading effect of tax on transactions of goods and services, and it will lead to the availability of goods and services to consumers at a lower price. GST also expected to have a considerable positive impact on the GDP of the country. The Indian economy has moved towards becoming a single market because to this uniformed tax system, which also makes it easier to conduct business. This study is entirely based on secondary data in order to find out how the GST affects the cost of services and its impact on India’s GDP.

The study concludes that the implementation of GST initially had tough in terms of execution as well as revenue collection but later it has increased the indirect tax collection and strengthened India’s position on both domestic and foreign market raising the tax to GDP ratio and reduced inflation.

Key Words- Goods and Service Tax, SGST, CGST, IGST, Tax-to-GDP ratio, Cascading effect, Indirect tax.

Introduction

The Goods and Services Tax (GST), the most ambitious tax reform of independent India, completed six years. The Goods and Services Tax, the largest tax reform introduced in India on July 1, 2017, which is now an integral part of Indian economy. In place of various tax laws like excise duty, service tax, VAT, CST, etc., a new and unified tax structure is used for indirect taxation. The new tax regime is undoubtedly intended to eliminate the cascading effect of tax on transactions of goods and services, and it will lead to the availability of goods and services to consumers at a lower price. GST also expected to have a considerable positive impact on the GDP of the country. The Indian economy has moved towards becoming a single market because to this uniformed tax system, which also makes it easier to conduct business.

The threat of a pandemic plagued India and the global economy far into the first three years of the reform, leading to global lockdowns and supply chain disruptions. This had a significant effect on GDP, growth, and GST receipts. But once the economy began to grow again, the GST became a major source of revenue for both the union government and the states. Since October 2020, the GST collections have regularly exceeded Rs.1 trillion (with the exception of two months). In comparison to Rs.1.02 trillion in 2019-2020 and Rs.945 billion in 2020-2021, the average monthly gross GST revenue in 2021–2022 was Rs 1.2 trillion. "The gross GST revenue collected in the month of April, 2023 rose to record high of Rs.1,87,035 and in the month of May, 2023 is Rs.1,57,090 crore.

Despite the COVID-19 disruption, this shows a strong economic recovery. This can be attributed to the government's efforts to strengthen the GST ecosystem and its focus on compliance, which not only increased income but also helped to formalise the economy.
Review of related Literature:

A number of articles and publications offer in-depth analyses of GST. The following is an overview of the literature's findings:

Dr. N. L. Vijaya 2017 studied Impact of GST on GDP of the Indian Economy. The study suggests that the implementation of GST would eliminate the cascading effect of taxes on goods and products, making exports of goods and services more competitive. According to a separate study by the National Council of Applied Economic Research (NCAER), the GST was anticipated to be a significant economic revolution in India and had the potential to boost the GDP by 0.9 to 1.7 percent.

Jaiprakash (2014), in his research study, the author stated that the GST at the Central and State level is expected to provide more relief to industry, trade, agriculture, and consumers through a more thorough and wider coverage of input tax set-off and service tax setoff, the consolidation of multiple taxes into the GST, and the gradual phase-out of CST.

Nishitha Guptha, in her 2014 study, argued that the implementation of GST in the Indian framework would bring commercial benefits that were not experienced under the previous VAT system. Furthermore, the statement implies that GST has the potential to lead to economic development and bring collective gains for various stakeholders, including industry, trade, agriculture, consumers, and the central and state governments.

Chirang rana (2018) in his research paper “A study on the impact of GST on Indian economy” states that GST promotes efficiency and equity in the economy. GST will be solving all the complexities present in the previous indirect tax system. While comparing challenges with its positive and negative, it is clearly visible that is positive impact are more compared to challenges.

Madhu Bala (2018) in her article GST in India and its impact on Indian Economy states that the implementation of GST in India would involve consolidating central and state taxes into a single tax payment. It also indicates that GST has the potential to enhance India's position in both the domestic and international markets. Furthermore, the statement suggests that GST can improve the country's tax-to-GDP ratio and help curb inflation.

Neeta Deepaware & Dr. Shivangi Dwivedi (2022) the article entitled “GST in India and its impact on Indian Economy. It is observed that the impact of GST can be measured only after some time and the government needs to find out further way of simplifying the procedure and it should be communicated to the public in more certain manner. It is also concluded that there are more positive aspects on GST.

Objectives of the study:

- To study how GST affects the cost of services in India.
- To study the impact of GST on India’s GDP.

Methodology: The study focuses on an extensive examination of secondary data collected from various sources, including government websites, national and international journals, articles, publications, conference papers, government reports, newspapers, and magazines. The objective of this data collection is to analyze and understand various aspects of the tax structure and GST.

Impact of GST on Cost of services in India:

The implementation of the Goods and Services Tax (GST) in India has indeed brought about significant changes to the tax system and has an impact on various aspects of daily life, including the cost of services. Here, we examine how the GST affects the cost of services in India.

1. Standardization of Taxes: Prior to the GST, services were subject to various indirect taxes, such as service tax, VAT, and excise duty. These taxes varied across states and often resulted in a complex tax structure. With the introduction of GST, these multiple taxes are unified into a single tax, streamlining the taxation process.

2. Tax Rates: Under the GST, services are classified into different tax slabs, namely 5%, 12%, 18%, and 28%. The tax rates applicable to specific services depend on their categorization. For example, essential services such as healthcare and education may attract lower tax rates, while luxury services may be subject to higher tax rates.

3. Increase or Decrease in Costs: The impact of GST on the cost of services can vary depending on the specific service and its tax classification. Some services may witness a decrease in costs due to the availability of input tax credits. Input tax credits allow service providers to claim credit for the GST paid on
inputs, such as raw materials or services used in the provision of the service. This can result in reduced overall tax liability and potentially lower costs for consumers.

4. **Transition Challenges:** Initially, during the transition period after the implementation of GST, there may have been some confusion and operational challenges for service providers. Some businesses may have passed on these transitional challenges to consumers by increasing service charges or fees. However, over time, as businesses adapt to the new tax system, these issues are likely to stabilize.

5. **Service-specific Impact:** Different services may be impacted differently by GST. For instance, the cost of dining out in restaurants and availing hospitality services may have experienced some changes due to revised tax rates. Similarly, financial services, telecommunication services, and transportation services have also been affected by the GST implementation.

It is essential to note that the GST framework is designed to bring greater transparency, simplify taxation, and promote economic growth in the long run. While there may have been initial adjustments, the aim of the GST is to create a more efficient and unified tax structure, benefiting both service providers and consumers.

The aforementioned bar graph displays the patterns in GST collection for the fiscal years 2022–23 and 2023–24’s April and May. The total amount of GST income collected in March 2023 was Rs.1,60,122 crore, of which CGST was Rs.29.546 crore, SGST was Rs.37,314 crore, IGST was Rs.82,907 crore (including 42,503 crore collected on goods imported), and cess was Rs.10,355 crore (including 960 crore collected on goods imported). The gross GST collection has surpassed the Rs.1.5 lakh crore barrier in the current fiscal year for the fourth time, marking the second-highest collection since the introduction of the GST. The amount of IGST collected this month was the biggest ever.

The revenue from GST for March 2023 is 13% more than the revenue from GST in the same month last year. In comparison to the same month last year, the income from imports of products was 8% higher and the income from domestic transactions, which includes the import of services, was 14% higher during the current month.

The average gross monthly collection for the entire year is 1.51 lakh crore, and the overall gross collection for 2022–23 is 18.10 lakh crore. The year 2022–2023 witnessed a 22% increase in gross revenues over the previous year. In comparison to the first, second, and third quarters’ average monthly collections of Rs.1.51 lakh crore, Rs.1.46 lakh crore, and Rs.1.49 lakh crore correspondingly, the average monthly gross GST collection for the last quarter of the FY 2022–23 was Rs.1.55 lakh crore. These figures indicate the performance and growth of GST revenue during the specified period, showcasing the increasing collection and contribution from various tax categories.
The above table reveals that from 2012–13 to 2016–17, the GDP growth rate showed a general upward trend, with an increase from 5.5% to 8.3%. In 2017-18, there was a slight dip in GDP growth to 6.8%, indicating a slowdown in economic growth. This might be due to the implementation of GST in India. The trend continues in 2018–19, with a further decrease in GDP growth to 6.5%. In 2019–20, there will be a significant decline in GDP growth to 3.7%, suggesting a notable economic slowdown.

In the year 2020–21, negative GDP growth of -6.7% indicates an economic contraction or recession due to the COVID pandemic, which results in a slowdown of economic activities. However, in 2021–22, there will be a sharp rebound with a high GDP growth rate of 8.7%, indicating a strong recovery. In 2022–23, there is a slight decline in GDP growth to 7.2%, but the annual change in growth is -1.5%. From the above interpretation, we conclude that after imposing GST in 2017, there was a slowdown in economic activity, which resulted in lower growth.

Challenges in GST:

Complexity in tax rates and return forms are ongoing issues: There are still disagreements and uncertainties because of the ambiguity surrounding return forms and the classification of some products and services.

Preventing Tax Fraud: Although steps have been taken to ensure compliance and stop fraudulent activity, tax fraud continues to be a problem that needs constant attention.

Issues needs to be addressed:

1. The GST should be expanded to include goods such as petroleum crude, high-speed diesel, petrol, natural gas, aviation turbine fuel, and alcohol intended for human consumption.
2. Consideration should be given to incorporating other levies, such as stamp duty and electricity duty, within the GST structure.
3. The taxation of crypto currency transactions and online gaming activity need precise regulations.
4. There is a need to streamline the process and improve compliance by simplifying the tax slabs.
Conclusion:

The Goods and Services Tax (GST) has had a substantial impact on India's economy. With the implementation of GST, the indirect tax system was to be streamlined and the cascading impact of taxes eliminated, thereby lowering the cost of goods and services for consumers. Despite the initial difficulties and disruptions brought on by the COVID-19 outbreak, GST has consistently generated more tax revenue for the government. A solid economic recovery and the government's emphasis on compliance and formalising the economy are both indicated by the increase in the average monthly gross GST income.

The potential advantages of GST on India's GDP is that by strengthening India's position on both domestic and foreign markets, raising the tax-to-GDP ratio, and reducing inflation, the GST has the potential to increase GDP. Additionally, there have been mixed results about how GST has affected the price of services in India. While certain services have seen a decrease in costs as a result of input tax credits, others may have initially encountered difficulties. However, the GST framework's long-term objective is to establish a more effective and uniform tax system that benefits both consumers and service providers.

REFERENCES