

GST IN INDIA: IMPACT OF GST ON INDIAN ECONOMY

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Tax is a compulsory payment made by individuals and businesses to the government, usually based on income, property, consumption, or other factors, for the purpose of financing public expenditures."

Adam Smith

Abstract

The research paper focuses on how the Goods and Services Tax (GST) in India, implemented on July 1, 2017, affects the country's economy. The Lok Sabha, the lower house of India's Parliament, passed the GST bill, which is expected to impact both businesses and consumers significantly. GST is a tax applied to the manufacture, sale, and consumption of goods and services in India.

GST is a tax that consumers pay when they buy goods or services like food, clothes, electronics, daily necessities, transportation, and travel. It's called an "indirect tax" because consumers don't pay it directly to the government. Instead, it's included in the prices set by manufacturers, sellers, and service providers. This means that even if you're not an income taxpayer, you still end up paying GST when you buy things.

Keywords: Goods and Service Tax, India, , Consumer, Economy , GST collection

INTRODUCTION

GST is known as the Goods and Services Tax. It is an indirect tax which has replaced many indirect taxes in India such as the excise duty, VAT, services tax, etc. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017 and came into effect on 1st July 2017.

In other words, Goods and Services Tax is levied on the supply of goods and services. Goods and Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. GST is a single domestic indirect tax law for the entire country.

Before the Goods and Services Tax could be introduced, the structure of indirect tax levy in India was as follows:

Buying Raw Material \Rightarrow VAT \Rightarrow Manufacture \Rightarrow VAT + Excise Duty \Rightarrow
Sale to whole seller \Rightarrow VAT \Rightarrow Sale to Retailer \Rightarrow VAT \Rightarrow Final Sale to
Consumer

Under the GST regime, the tax is levied at every point of sale. In the case of intra-state Supply , Central GST and State GST are charged. All the inter-state Supply are chargeable to the Integrated GST.

Globally, the broad principles of GST are as under: • GST is a broad-based tax • GST is a destination based tax • GST is technically paid by suppliers but it is actually funded by consumers • GST is collected through a staged process i.e. a tax on the value added to goods or services at every point in the supply chain • GST is a tax on the consumption of products from business sources, and not on personal or hobby activities • Under GST, input tax credit is provided throughout the value chain for creditable acquisition.

OBJECTIVE OF STUDY

- To study impact of GST on Indian economy.
- To review the objectives and classification of GST.
- To examine various economic indicators and factors to understand how this taxation system affects different aspects of the economy

RESEARCH METHODOLOGY

The study focuses on extensive study of Secondary data collected from various sources i.e books, National and international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service Tax.

REVIEW OF LITERATURE

Dr. N. L. Balasudarsun and Melvin Paul Antony (2018) the article entitled “Impact of Demonetization and GST on Life Insurance Sector”. This paper offers with impact of Demonetization and GST on existence coverage area. For this motive a hundred thirty changed into collected from lifestyles coverage employees of Cochin place based on random sampling approach. Descriptive statistics and ANOVA check were used to research the statistics. The study found that, Demonetization and GST have existence coverage quarter.

Pallavi Kapila (2018) the article entitled “GST: Impact on Indian Economy”, In this studies paper an attempt has been made to throw light on how GST might help in reducing the present complexity of taxes in India as it subsumes VAT, Excise obligation, service tax and sales tax. The observe found that, the implementation of GST had played a critical role in the boom of Indian financial system. A uniform and rational taxation machine in India could result in lesser disruptions within the marketplace economy and more efficient distribution of resources inside the industry in the close to future. The observe additionally observed that, GST will lead to a growth in GDP and exports of the U.S.A. enhancing economic welfare and returns to the factors of production

i.e. Land, hard work and capital.

Jadhav Bhika Lala (2017) the article entitled “Impact of GST on Indian Economy In this paper an attempt has been made to throw light on GST, its features and also effect of GST on prices of goods and services. The study found that, the GST system is basically restructured to simplify current critical indirect tax system in India. The study also found that, a well-designed GST is an attractive method to get liberate of deformation of the existing process of multiple taxes and reduce the compliance burden.

Prof. Pooja S. Kawle and Prof. Yogesh L. Aher (2017) the article entitled “GST: An Economic Overview: Challenges and Impact Ahead”. The studies intends to awareness on expertise the concept of products and service tax and its effect on Indian economy. The observe found that, GST may additionally assure the opportunity of standard gain for industry, trade and agriculture. The examine additionally located that, GST will have high-quality effect on the Indian economic system.

OBJECTIVES OF GST

The Goods and Services Tax (GST) system, implemented in many countries including India, is designed with several objectives in mind. These objectives generally aim to streamline the indirect tax structure, enhance tax compliance, promote economic efficiency, and facilitate a more integrated national market. Here are some of the key objectives of GST:

Simplification of Tax Structure: One of the primary objectives of GST is to simplify the complex indirect tax structure by subsuming multiple indirect taxes such as excise duty, service tax, VAT, and others into a single unified tax system.

Uniformity: GST aims to bring uniformity in tax rates and regulations across the country, reducing disparities among states and creating a more integrated national market.

Removal of Cascading Tax Effect: GST eliminates the cascading effect of taxes, also known as tax on tax, by allowing for the input tax credit mechanism. This ensures that taxes are levied only on the value addition at each stage of the supply chain.

Enhanced Tax Compliance: GST aims to broaden the tax base and enhance tax compliance through measures such as simplified tax procedures, online tax filing systems, and increased transparency in tax administration.

Promotion of Business Efficiency: By reducing compliance costs and removing barriers to inter-state trade, GST aims to improve the ease of doing business and promote greater efficiency in the business environment.

Boost to GDP Growth: GST is expected to contribute to GDP growth by reducing tax distortions, promoting investment and consumption, and fostering a more efficient allocation of resources across sectors.

Facilitation of Trade: GST facilitates seamless movement of goods and services across state borders by eliminating check posts and reducing compliance requirements for interstate transactions, thereby promoting interstate trade.

Inflation Control: GST aims to mitigate inflationary pressures by rationalizing tax rates, eliminating tax cascading, and reducing tax evasion, leading to stable prices of goods and services.

Promotion of Make in India Initiative: By providing a level playing field for domestic manufacturers vis-à-vis imports, GST supports the government's "Make in India" initiative aimed at promoting domestic manufacturing and boosting economic growth.

Increased Revenue Generation: While ensuring a more efficient tax system, GST aims to generate higher tax revenues for the government, which can be used for public welfare and infrastructure development.

These objectives collectively contribute to the broader goal of creating a more transparent, efficient, and equitable tax regime that supports economic growth and development.

Favourable Impact of GST on an Indian Economy

The Goods and Services Tax (GST) has had several favorable impacts on the Indian economy since its implementation. Some of the key positive effects include:

Simplification of Tax Structure: GST has simplified the indirect tax structure by subsuming multiple taxes into a single unified tax, leading to a more straightforward and transparent tax regime. This simplification has reduced compliance costs and administrative burdens for businesses.

Removal of Cascading Effect: GST has eliminated the cascading effect of taxes by allowing for the seamless flow of input tax credit across the supply chain. This has led to a reduction in the overall tax burden on goods and services, making them more affordable for consumers.

Promotion of Ease of Doing Business: GST has streamlined tax procedures and reduced compliance requirements, making it easier for businesses to operate across state borders. This has facilitated interstate trade and contributed to the ease of doing business in India.

Creation of a Unified National Market: GST has created a unified national market by harmonizing tax rates and regulations across states. This has reduced barriers to trade and promoted economic integration, leading to a more efficient allocation of resources.

Boost to Tax Revenues: GST has led to an expansion of the tax base and increased tax compliance, resulting in higher tax revenues for the government. This additional revenue can be used for public welfare and infrastructure development, contributing to overall economic growth.

Reduction in Tax Evasion: GST has introduced measures such as invoice matching and electronic filing of tax returns, which have helped in reducing tax evasion and improving tax compliance. This has resulted in a more transparent and accountable tax system.

Promotion of Formalization: GST has incentivized businesses to formalize their operations to avail of input tax credits and comply with tax regulations. This has led to the formalization of the informal sector, resulting in increased transparency and accountability in business transactions.

Stimulus to Manufacturing and Export: GST has reduced the tax burden on manufacturing and export-oriented industries by providing input tax credits and refund mechanisms. This has stimulated investment and growth in these sectors, contributing to overall economic development.

Reduction in Logistics Costs: GST has led to the removal of interstate check posts and the implementation of a unified tax system for transportation services, resulting in a reduction in logistics costs and improved efficiency in the movement of goods across the country.

Enhanced Competitiveness: GST has improved the competitiveness of Indian businesses in both domestic and international markets by reducing tax distortions, promoting efficiency, and creating a level playing field for all stakeholders.

Overall, the favorable impact of GST on the Indian economy includes simplification of tax procedures, promotion of business efficiency, creation of a unified national market, expansion of the tax base, reduction in tax evasion, and stimulation of investment and growth across various sectors.

Unfavourable Impact of GST on Indian Economy

While the Goods and Services Tax (GST) has brought about several positive changes in the Indian economy, it has also faced criticism and has had some unfavorable impacts. Some of the key unfavourable impacts of GST on the Indian economy include:

Initial Disruption and Compliance Challenges: The transition to the GST regime caused initial disruption to businesses due to changes in tax procedures, software updates, and compliance requirements. Small and medium-sized enterprises (SMEs) faced challenges in adapting to the new tax regime, leading to temporary disruptions in business operations.

Complex Tax Structure: Despite the aim of simplifying the tax structure, GST introduced a complex system with multiple tax slabs (0%, 5%, 12%, 18%, and 28%) and various exemptions. This complexity has increased compliance costs for businesses and led to confusion regarding the classification of goods and services under different tax rates.

Impact on Small Businesses: Small businesses, especially those operating in the informal sector, faced difficulties in complying with GST regulations due to their limited resources and lack of familiarity with formal tax procedures. This has led to a decline in the competitiveness of small businesses and increased compliance burden.

Inflationary Pressures: The implementation of GST initially led to inflationary pressures as businesses passed on increased tax costs to consumers. While the long-term impact is expected to be beneficial, the short-term inflationary impact affected consumer spending and purchasing power.

Adverse Impact on Service Sector: Certain segments of the service sector, such as healthcare, education, and transportation, faced higher tax rates under GST, leading to increased costs for consumers. This adversely affected affordability and accessibility of essential services for some sections of the population.

Impact on Exporters: Exporters initially faced challenges in claiming input tax credits and obtaining timely refunds under GST, leading to liquidity issues and increased compliance costs. Delays in refund processing and procedural complexities hampered the competitiveness of Indian exporters in the global market.

Compliance Burden: GST compliance requires businesses to file multiple returns and maintain detailed records of transactions, leading to increased administrative burden and compliance costs. This has been particularly challenging for small businesses and startups with limited resources.

Revenue Loss for States: Some states experienced revenue losses in the initial years of GST implementation due to the subsuming of various taxes and the introduction of revenue-sharing mechanisms. This led to concerns among states regarding their fiscal autonomy and ability to meet expenditure requirements.

Impact on Informal Economy: The formalization of the economy under GST has led to challenges for businesses operating in the informal sector, which have historically relied on cash transactions and evaded taxes. This transition has disrupted traditional business practices and livelihoods in certain sectors.

Sectoral Variations: Different sectors have been impacted differently by GST, with some benefiting from input tax credits and reduced tax rates, while others faced increased tax liabilities and compliance burdens. Sectoral variations have led to disparities in the distribution of benefits and challenges across industries.

Overall, while GST has aimed to simplify the tax structure, enhance tax compliance, and promote economic efficiency, its implementation has also faced challenges and generated unfavourable impacts on certain segments of the Indian economy. Addressing these challenges through policy reforms and measures to mitigate adverse effects remains crucial for maximizing the benefits of GST and ensuring inclusive growth.

Posting a growth rate of 12% Y-o-Y, Rs.14.97 lakh crore gross GST collection during April-December 2023 period
Gross GST collection averages Rs.1.66 lakh crore in first 9 months of FY24

Rs.1,64,882 crore gross GST revenue collection for December, 2023

Posted On: 01 JAN 2024 4:17PM by PIB Delhi¹

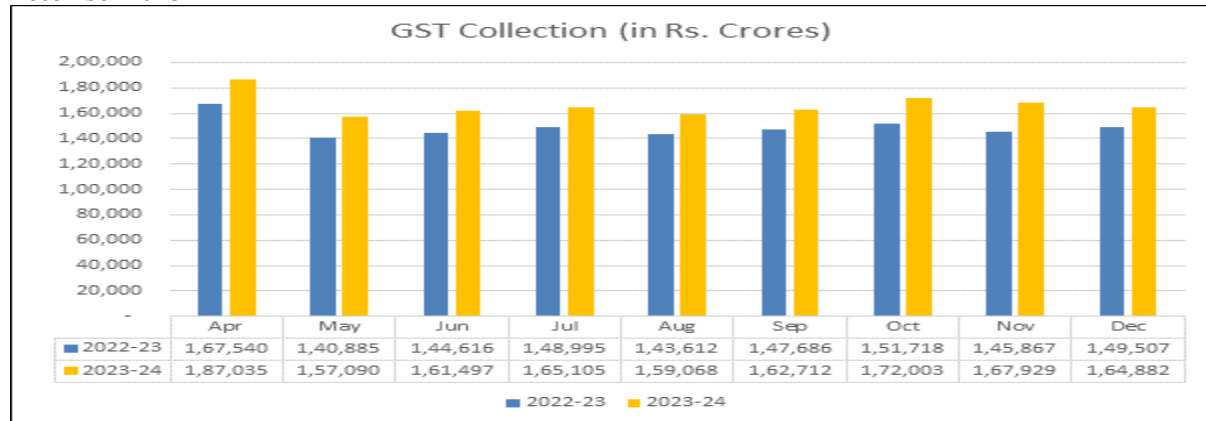
During the April-December 2023 period, gross GST collection witnessed a robust 12% y-o-y growth, reaching **Rs.14.97 lakh crore**, as against **Rs.13.40 lakh crore** collected in the same period of the previous year (April-December 2022).

The average monthly gross GST collection of **Rs.1.66 lakh crore** in the first 9-month period this year represents a 12% increase compared to the **Rs.1.49 lakh crore** average recorded in the corresponding period of FY 2023. The gross **GST revenue collected in the month of December, 2023 is Rs.1,64,882 crore** out of which CGST is Rs.30,443 crore, SGST is Rs.37,935 crore, IGST is Rs.84,255 crore (including Rs.41,534 crore collected on import of goods) and cess is Rs.12,249 crore (including Rs.1,079 crore collected on import of goods). Notably, this marks the seventh month so far this year with collections exceeding **Rs.1.60 lakh crore**.²

The government has settled Rs.40,057 crore to CGST and Rs.33,652 crore to SGST from IGST. The total revenue of Centre and the States in the month of December, 2023 after regular settlement is Rs.70,501 crore for CGST and Rs.71,587 crore for the SGST.

The revenues for the month of December, 2023 are 10.3% higher than the GST revenues in the same month last year. During the month, the revenues from domestic transactions (including import of services) are 13% higher than the revenues from these sources during the same month last year.

The chart below shows trends in monthly gross GST revenues during the current year. **Table-1** shows the state-wise figures of GST collected in each State during the month of December 2023 as compared to December 2022. **Table-2** shows the state-wise figures of post settlement GST revenue of each State till the month of December 2023.



Source : <https://pib.gov.in/PressReleaseframePage.aspx?PRID=1992123>

Table -1: State-wise growth of GST Revenues during December, 2023

State/UT	Dec-22	Dec-23	Growth (%)
Jammu and Kashmir	410	492	20%

¹ <https://pib.gov.in/PressReleaseframePage.aspx?PRID=1992123>

² <https://pib.gov.in/PressReleaseframePage.aspx?PRID=1992123>

Himachal Pradesh	708	745	5%
Punjab	1,734	1,875	8%
Chandigarh	218	281	29%
Uttarakhand	1,253	1,470	17%
Haryana	6,678	8,130	22%
Delhi	4,401	5,121	16%
Rajasthan	3,789	3,828	1%
Uttar Pradesh	7,178	8,011	12%
Bihar	1,309	1,487	14%
Sikkim	290	254	-13%
Arunachal Pradesh	67	97	44%
Nagaland	44	46	4%
Manipur	46	50	9%
Mizoram	23	27	18%
Tripura	78	79	2%
Meghalaya	171	171	0%
Assam	1,150	1,303	13%
West Bengal	4,583	5,019	10%
Jharkhand	2,536	2,632	4%
Odisha	3,854	4,351	13%
Chhattisgarh	2,585	2,613	1%
Madhya Pradesh	3,079	3,423	11%
Gujarat	9,238	9,874	7%
Dadra and Nagar Haveli and Daman & Diu	318	333	5%
Maharashtra	23,598	26,814	14%
Karnataka	10,061	11,759	17%
Goa	460	553	20%
Lakshadweep	1	4	310%

Kerala	2,185	2,458	12%
Tamil Nadu	8,324	9,888	19%
Puducherry	192	232	21%
Andaman and Nicobar Islands	21	28	35%
Telangana	4,178	4,753	14%
Andhra Pradesh	3,182	3,545	11%
Ladakh	26	58	127%
Other Territory	249	227	-9%
Center Jurisdiction	179	243	36%
Grand Total	1,08,394	1,22,270	13%

Source : <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1992123>

Centre on Wednesday reported 10.4% increase in goods and services tax (GST) revenue in January 2024 at Rs 1.72 lakh crore.

At Rs 1,72,129 crore, GST collections are second highest ever and they crossed Rs 1.7 lakh crore-mark for the third time in FY24.

"The gross GST revenue collected in the month of January, 2024 (till 05:00 PM of 31.01.2024) is Rs 1,72,129 crore, which shows a 10.4% Year-o-Year (Y-oY) growth over the revenue of Rs 1,55,922 crore collected in January 2023 (till 05:00 PM on 31.01.2023)," said Ministry of Finance in a statement.

CONCLUSION

As of 2024, the Goods and Services Tax (GST) has been a significant tax reform in India, aimed at simplifying the indirect tax structure, enhancing tax compliance, and promoting economic growth. Since its implementation, GST collection has evolved, and its impact on the Indian economy has been mixed.

On the one hand, GST collection has shown a gradual increase over the years, indicating improved tax compliance and a broadened tax base. This increase in revenue has provided the government with additional resources for public welfare and infrastructure development. Moreover, the GST regime has streamlined tax procedures, reduced tax cascading, and created a unified national market, contributing to the ease of doing business and fostering economic integration across states.

However, the implementation of GST has also presented challenges and generated certain adverse impacts on the Indian economy. Initial disruptions, compliance challenges, and the complex tax structure have affected small and medium-sized enterprises (SMEs) and certain sectors, leading to temporary disruptions in business operations and increased compliance costs. Additionally, the transition to GST initially caused inflationary pressures, impacting consumer spending and purchasing power.

Furthermore, certain segments of the service sector and exporters have faced challenges in claiming input tax credits and obtaining timely refunds under GST, affecting their competitiveness in the global market. Moreover, the formalization of the economy under GST has posed challenges for businesses operating in the informal sector, disrupting traditional business practices and livelihoods in certain sectors.

In conclusion, while GST has brought about positive changes in the Indian tax system and contributed to economic growth, its implementation has also faced challenges and generated unfavorable impacts. Addressing these challenges through policy reforms, simplification of tax procedures, and measures to mitigate adverse effects remains crucial for maximizing the benefits of GST and ensuring inclusive growth in the Indian economy.

SUGGESTION

Improving the Goods and Services Tax (GST) system requires addressing various challenges and implementing measures to enhance its effectiveness and efficiency. Here are some suggestions to improve the GST system:

Simplify Tax Structure , Rationalize Tax Rates: Enhance Tax Administration ,Facilitate Input Tax Credit (ITC) ,Ensure Clarity in Regulations , Improve GST Network (GSTN) ,Simplify Compliance Procedures , Promote Taxpayer Education and Awareness, Address Sector-specific Issues ,Engage Stakeholders

Implementing these suggestions would require a concerted effort from policymakers, tax authorities, businesses, and other stakeholders to enhance the effectiveness and efficiency of the GST system and realize its full potential as a transformative tax reform in India.

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