

4. Impact of GST on the Indian Economy

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Abstract:

The Goods and Services Tax (GST), which went into effect on July 1, 2017, marked a watershed moment in Indian economic history, drastically changing the country's taxation system. This chapter dives into GST's far-reaching economic ramifications, examining its many effects on government income, GDP, business sectors, and the broader economy. GST aims to build a unified, efficient tax system by eliminating the complicated and fragmented structure of state and national levies that had previously hampered India's economic integration. The chapter analyzes the dual GST system, its economic ramifications for industry, services, and agriculture, and the sector-specific issues it has created.

The discussion also covers the difficulties that businesses encounter in complying with new regulations, particularly for small and medium-sized organizations (SMEs), as well as the many consequences for Indian states, particularly those that rely largely on sales tax revenue

The chapter also explores implementation issues, such as technology failures and delayed refunds, and evaluates GST's long-term potential to drive economic growth. GST's future trajectory, with projected changes and technology developments, holds the prospect of enhancing India's economic framework. This detailed analysis provides a sophisticated perspective of GST's crucial role in defining India's economic landscape, outlining both its problems and prospects for long-term growth, global competitiveness, and improved business transparency.

Keywords:

Goods and Services Tax (GST), Indian Economy, Tax Compliance, GST Structure, Tax Reforms.

Objectives: In this chapter, the following concepts are covered.

1. Structure of GST in India
2. Impact of GST on various sectors like manufacturing, services, agriculture etc.
3. Economic impact of GST implication
4. Challenges in GST Implication
5. Future of GST in India

4.1 Introduction:

The Goods and Services Tax (GST) was implemented in India on July 1, 2017, as one of the country's most major tax reforms. GST aims to simplify the indirect tax structure, unite India's fragmented tax system, and foster a more efficient, transparent, and business-friendly environment. The tax regime replaced various state and central levies, resulting in a unified indirect tax framework that applies throughout the country.

This chapter explores GST's far-reaching influence on the Indian economy, including economic implications, sectoral repercussions, implementation issues, and long-term consequences for businesses and consumers. By examining the consequences on government revenues, GDP, diverse industries, and taxpayers, we hope to present a holistic picture of GST's role in defining India's economic future.

4.2 GST Structure and Framework:

GST is a comprehensive indirect tax levied on the sale of goods and services. It uses a dual system: Central GST (CGST) and State GST (SGST) for intra-state transactions, and Integrated GST (IGST) for inter-state transactions. The tax is levied at a variety of rates, which are divided into several slabs ranging from 0% to 28%, with a particular rate for certain commodities. The GST Council, which consists of representatives from both the central and state governments, is in charge of determining the GST tax structure, rates, and other essential policies. This body is critical to ensure that GST is implemented consistently throughout states.

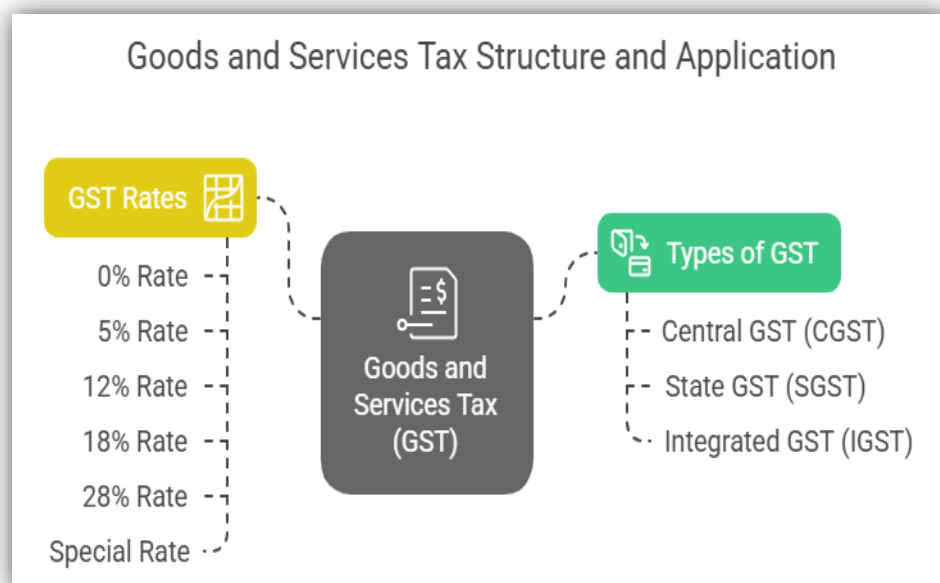


Figure 4.1: Goods and Services Tax Structure and Application

4.3 GST Implication & it's Impact of Indian Economy:

The main objective of the GST was to increase India's GDP by promoting economic competence and implementing ease of doing business. By eliminating interstate barriers and lessening the cascading effects of taxes, the implementation of the GST leads to a unified market throughout the nation. GST contributed to cut inflation by lowering the cost of goods and services by abridging the tax system.

At first, the effect on India's GDP was favourable. According to early research, the GST might eventually raise the GDP growth rate by as much as 1% to 2%. However, over time, the effect of GST on GDP growth has changed. While some industries profited from the simplicity of conducting business, others encountered difficulties with implementation and compliance expenses.

Revenue for the government has also been significantly impacted by GST. The government has increased the efficiency of tax collection through improved tax compliance made possible by the technology-driven GST system. Nevertheless, transitional problems and lower-than-expected tax rates in some industries have caused revenue collections to be a little erratic in the early years.

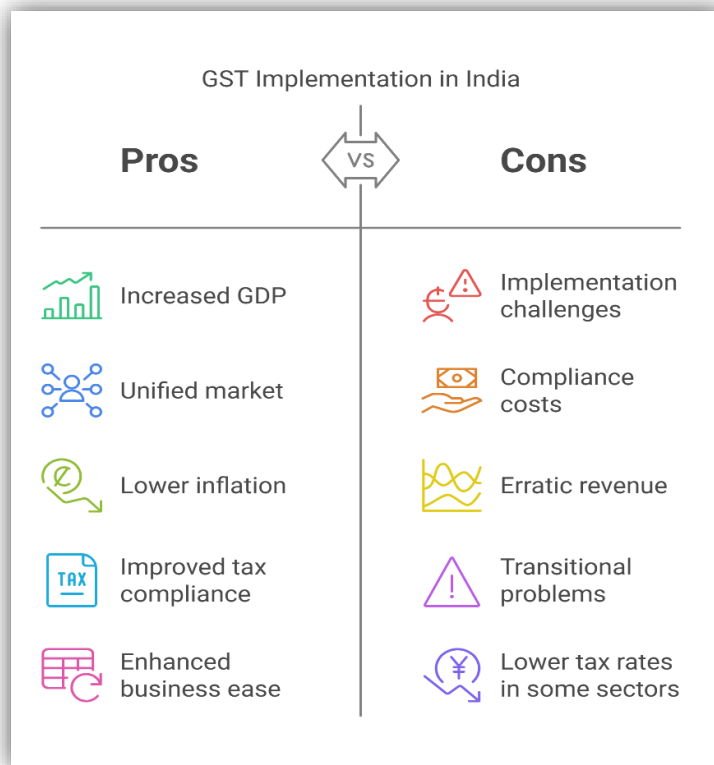


Figure 4.2: GST Implementation in India

4.4 GST and the Business Sector:

Depending on their size and type, businesses have seen both positive and bad effects from the GST. It was anticipated that SMEs would become more competitive because of the tax structure's simplification and the availability of input tax credits. Many SMEs, however, found it difficult to handle the intricacies of the compliance processes, which included registering, submitting returns, and keeping thorough records.

The supply chain was significantly altered for larger companies by the GST. By eliminating interstate taxes and simplifying the tax code, companies were able to increase efficiency, cut expenses, and enhance logistics. However, because large enterprises require strong accounting and reporting systems, they also had to pay more for compliance in the near term.

Additionally, the GST has influenced exporters by making it simpler for them to request reimbursements for input taxes paid. Exporters' liquidity was impacted by the early delays caused by issues with the return mechanism.

4.5 Sector wise Impact of GST:

The introduction of GST has created diverse outcomes for several sectors of the economy. Each industry has experienced exclusive challenges and benefits owing to its application:

1. **Agriculture:** GST has a good impact on agricultural crops and products, which are mostly exempt from GST, however involvements such as fertilizers impose levies. It also discovered significant obstacles in obtaining input tax credits for farmers. Tax exemptions on agricultural products improve export attractiveness by lowering tax rates.
2. **Manufacturing:** GST has eliminated flowing taxes, reducing manufacturing costs and refining supply chain efficiency. However, Small producers scuffle with compliance on the other hand, it also enhanced worldwide effectiveness, specifically in exports.
3. **Services:** Uniform GST has optimistic impact on services that simplified tax structure. Some sectors like telecom & hospitality facing augmented tax burdens. Input tax credits benefited to reduce service costs.
4. **Retail and E-Commerce:** Retail and E-Commerce found Simplifies regional transactions, helping e-commerce. However, the unorganized retail industries faces challenges in adaptation concerns. Here, E-commerce platforms get advantage from a identical tax regime.
5. **Real Estate: Introduction off GST changes** multiple taxes, leading to compact spilling taxes in construction sector, which increased costs for housing property buyers. However, transparent tax structure fascinates long-term investments.
6. **IT and Software:** IT services benefited from input tax credits and streamlined tax rates.at international contracts there was confusion over tax treatment that needs to address. Development and demand for IT is potential for tech corporations.
7. **Pharmaceuticals and Healthcare:** With the introduction on GST it increase costs for pharma and healthcare suppliers and in claiming tax credits small manufacturers face difficulty. However, it enhanced supply chain efficiency in medications.

8. **Hospitality and Tourism:** Due to increased tax, burden on luxurious hotels and facilities cause higher bills for tourists and introduction of GST provides transparent tax system, which can boost international tourism in a long run.
9. **Education and Training:** Educational services are excluded, however coaching and training services are taxed, and the most significant obstacle was higher tuition for students in private universities. Improved transparency and quality in the private education sector may present an opportunity for growth.
10. **Automobile Sector:** Due to GST implication, taxes on luxury cars has increased heavily, but observed tax relief for large group of prospective customers vehicles. Augmented prices for luxury cars affected middle class group of people in India. It also found that cost has declined in manufacturing.

Table 4.1: Summary of Sector wise Impact of GST Implication

Sectors	Impact
Agriculture	- Agricultural products remain largely exempt from GST.
	- Fertilizers and inputs are taxed, increasing costs.
	- Difficulty in claiming input tax credits for farmers.
	- Tax exemptions make exports more attractive.
Manufacturing	- GST eliminates cascading taxes, reducing manufacturing costs.
	- Improved supply chain efficiency.
	- Small producers face challenges in compliance.
	- Enhanced global competitiveness, especially in exports.
Services	- Uniform GST simplifies the tax structure.
	- Sectors like telecom and hospitality face higher tax burdens.
	- Input tax credits help reduce service costs.
Retail and E-Commerce	- Simplifies interstate transactions, benefiting e-commerce.
	- Unorganized retail struggles with adaptation.
	- E-commerce platforms benefit from a uniform tax regime.
Real Estate	- GST replaces multiple taxes, reducing cascading tax effects in construction.
	- Increased costs for property buyers.
	- Transparent tax structure encourages long-term investment.
IT and Software	- IT services benefit from input tax credits and simplified tax rates.
	- Confusion exists over the tax treatment of international contracts.
	- Growth potential for IT companies.

Sectors	Impact
Pharmaceuticals and Healthcare	- Increased costs for pharma and healthcare providers.
	- Small manufacturers face challenges claiming input tax credits.
	- Improved supply chain efficiency in pharmaceuticals.
Hospitality and Tourism	- Increased tax burden on luxury hotels and services, raising costs for tourists.
	- Transparent tax system may boost international tourism in the end.
Education and Training	- Educational services are exempt from GST, but coaching and training services are taxed.
	- Increased fees for students in private institutions.
	- Improved transparency and quality in private education could lead to growth.
Automobile Sector	- Higher taxes on luxury cars, increasing costs for customers.
	- Tax relief for mass-market vehicles.
	- Higher prices for luxury cars affect middle-class consumers.
	- Reduced manufacturing costs.

4.6 GST and the Indian States:

One of the distinguishing features of GST implementation was its federal character. The GST replaced a complex web of state and central taxes that had previously resulted in tax jurisdiction disputes. The new system of state-specific taxes (SGST) and federal taxes (CGST) enabled a more equitable allocation of income between states and the centre. However, the adoption of GST presented difficulties for some states, notably those with smaller tax bases or those that relied largely on sales tax revenue from specific industries. These states originally experienced revenue shortfalls, and the government compensated for lost revenues during the first few years of GST adoption.

The GST's influence on regional economies varies. States with strong manufacturing bases, such as Maharashtra and Gujarat, saw favourable growth, whereas states reliant on agricultural and informal sectors, such as Bihar and Uttar Pradesh, faced more challenges.

4.6.1 Challenges in GST Implementation:

The installation of GST has not been without difficulties. One of the most significant challenges was the initial complexity of the new system, which required firms to rebuild their accounting systems, train employees, and deal with multiple GST filings. Smaller enterprises, in particular, found this difficult, with many struggling to keep up with the new system.

GST relied heavily on technology, as businesses were compelled to file returns electronically. However, the initial infrastructure was unable to manage the high volume of data, resulting in delays and technological difficulties while filing returns.

Furthermore, concerns such as delayed refunds and ambiguity in tax rates on specific goods and services caused confusion and frustration among firms. These difficulties hampered both compliance levels and the seamless operation of the GST system.

GST and the taxpayers:

GST has had an impact on taxpayers across all income groups. The tax reform reduced the overall tax burden on many goods for middle-class people, resulting in cheaper pricing for everyday items. Certain luxury goods, however, received a hike in tax rates, resulting in greater expenses for richer buyers.

The transition from a system of several indirect taxes to a unified GST system made tax collection more transparent, reducing tax evasion. The use of a digital system enabled better transaction tracking, and the possibility of input tax credits encouraged enterprises to formalize their activities.

GST's Future in India:

GST is likely to evolve in the future. Future reforms could include simplifying the tax structure, lowering tax brackets, and eliminating refund difficulties. The administration is also expected to make changes to address sector-specific concerns, such as agriculture and SMEs.

Technological improvements, such as the integration of block chain and artificial intelligence for more efficient tax collection and compliance, will also have an impact on the future of GST. Furthermore, the global economic situation will influence India's GST policy, especially as the country strives to improve trade connections and attract foreign investment.

4.7 Conclusion:

GST has had a significant impact on India's economy. While it has experienced severe implementation and compliance issues, it has resulted in a more efficient and transparent tax system, which has increased government income and made doing business easier. The long-term impact of GST is still unknown, but its importance in altering India's economic environment is evident.

GST has the ability to promote significant economic growth, improve India's global competitiveness, and benefit taxpayers, businesses, and consumers alike if properly implemented.

Section	Details
Introduction	- GST was introduced on July 1, 2017, to streamline the Indian tax system.
	- Aimed to replace multiple taxes with a unified indirect tax structure.
	- Examines the impact on the economy, businesses, and consumers.
GST Structure and Framework	- Dual system: CGST, SGST for intra-state, IGST for inter-state.
	- Multiple tax slabs ranging from 0% to 28%.
	- GST Council makes key decisions.
	- GST impacts goods and services uniformly.
Economic Impact of GST	- Positive GDP growth due to better market integration.
	- Lower inflation rates in the long term.
	- Improved government revenue collection through efficient tax processes.
	- Early challenges with tax rate adjustments and sector-specific impacts.
GST and the Business Sector	- SMEs: Faced challenges in compliance despite benefits from simplified taxes.
	- Large Corporations: Streamlined supply chains, reduced logistics costs.
	- Exporters: Initially faced refund delays but gained better input credit systems.
	- Higher short-term compliance costs.
Sector-wise Impact of GST	- Agriculture: Faced challenges with tax on inputs, but some exemptions provided.
	- Manufacturing: Benefited from lower input costs and improved competitiveness.
	- Services: Uniform tax rates improved ease of compliance but increased costs in certain sectors.
GST and Indian States	- Regional Differences: Wealthier states (Maharashtra, Gujarat) saw benefits, while agricultural-based states (Bihar, UP) faced challenges.
	- Revenue Issues: Some states faced shortfalls in initial years, compensated by the government.
Challenges in GST Implementation	- Initial compliance complexities for businesses (especially SMEs).
	- Technology glitches in e-filing and return processing.
	- Delays in refunds and ambiguities in tax rates led to confusion.
	- The need for robust accounting systems.
GST and Taxpayers	- Middle-Class Impact: Lower prices on many goods due to reduced tax burden.
	- Wealthier Consumers: Higher taxes on luxury goods.
	- Tax Transparency: Improved tax collection systems, reducing tax evasion.

Section	Details
Future of GST in India	- Input tax credits promoted formalization of businesses.
	- Expected reforms to simplify tax structure and reduce tax slabs.
	- Technological advancements, such as AI and blockchain, for better tax collection.
	- Potential for further amendments addressing sector-specific concerns.
Conclusion	- Global economic factors may influence future reforms.
	- GST has brought long-term benefits in terms of tax efficiency, revenue growth, and business transparency.
	- Challenges remain, but with continued reforms, GST could drive sustained economic growth.
	- Key to improving India's competitiveness in global markets.

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