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A Comprehensive Analysis of GST and its Impact on Indian Economy

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ABSTRACT

GST is one of the largest tax reforms in India. It came into effect on July 1, 2017. After its implementation people are no longer subject to indirect taxes like sales tax, VAT, excise duty, service tax, etc. Since goods are now available nationwide at the same price, the average person has profited the most from the introduction of the Goods and Services Tax (GST). To counteract the negative impacts of cascading effects and create a common national market, many central and state taxes have been combined into a single tax, and prior-stage taxes have been set off. Some of them responded favourably, while others provided unfavourable comments because the implementation raised the cost of products and services, which means that consumers may find this tax burdensome. After the implementation of GST, there have been fewer tax disputes because the tax structure is now unified and fully transparent. GST has a significant impact on the whole economy, not just the manufacturing or service sectors. The implementation of the Goods and Services Tax (GST) has an equal impact on all participants in the commercial arena, including manufacturers, traders, and service providers. Hence this study aims to find out the positive and negative impact of GST on Indian economy.

Introduction

The largest tax reform, known as the Goods and Services Tax (GST), has been incorporated into the Indian economy. The Constitution (One Hundred and First Amendment) Act of 2016 introduced GST in India. The Goods and Services Tax (GST) is an indirect taxation system that combines the majority of the existing taxation regimes into one. Instead of using different tax laws such as excise duty, service tax, VAT, CST, etc. for indirect taxation, a new and unified tax structure is used. This new tax regime is undoubtedly intended to remove the cascading effect of taxes on the transaction of goods and services, which will lead to the availability of goods and services at a lower price for consumers. With the introduction of GST, India is able to offer a tax system that is nearly identical to that of the rest of the globe. Additionally, it has increased the competitiveness of domestic goods and services on a global scale. Thus, through a more comprehensive and wide-ranging breadth of coverage of input tax set-off and services tax set-off, the GST at the federal and state levels has provided greater relief to industry trade, and agribusiness as well, as customers. There are four different forms of Goods and Services Tax (GST): Central GST (CGST), State GST (SGST), Integrated GST (IGST), and Union Territory GST (UGST). In India, there are four rates for Goods and Services Tax (GST): 5%, 12%, 18%, and 28%. Nearly all goods and services are subject to this tax.

Review of Literature

Munde & Chavan (2016) In this study the authors examine the benefits and drawbacks of GST and provide recommendations for reducing loopholes and improving its effectiveness. They concluded that if potential loopholes are closed off, taxpayers will welcome the change, and if the GST process is straightforward and ensures that all parties have an interest in it, then economic growth and price rationalization are the sure outcomes.

B. Mitra Priya (2017) In this study the author claimed that the GST has changed the game for the Indian economy. The research demonstrated how the GST eliminated the cascading impact and simplified the numerous tax regimes. Several industries, including banking, consumer goods, real estate, automobiles, e-commerce, and telecom, had an impact on tax incidence. Influence on input tax credit indicated that cross-credit utilization in CGST and SGST would be possible.

Khurana, A. And Sharma, A. (2016) In their research paper "Goods and Services Tax in India - A Positive Reform for Indirect Tax," the authors outlined the goals of the Goods and Services Tax and changes to the country's indirect taxation framework. The authors concluded that manufacturers, wholesalers, and retailers can readily recoup input taxes in the form of tax credits after the implementation of GST.

Dani S. (2016) In this study the author pointed out that once the GST is put into effect, central and state taxes will be combined into a single tax payment, which will improve India's standing both domestically and internationally. Although it will eliminate cascading taxes and lessen the overall tax burden, the GST is not as ideal as it is made out to be. A few of its drawbacks are that the standard and luxury goods will have considerably higher GST rates than the existing tax rate, and the GST will be dual rather than national. The analysis concluded that the proposed GST system, which aims to exempt energy and petroleum items from the GST, appears to be detrimental to the telecommunications sector. The author concluded that prior to the adoption of the GST regime, there should be a robust IT network and consensus formed.

Kapoor S. (2018) In this study, the author used secondary data to highlight how the GST has affected the growth of the Indian economy. According to the report, our nation's complicated indirect tax system is anticipated to be balanced, streamlined, and operated at a lower cost of operation under the GST, thereby increasing industry competitiveness.

Objectives of the study

1. To study about the concept of GST.

2. To study the positive and negative impact of GST on Indian economy.

Research Methodology

This study is completely based on secondary data from journals, articles, newspapers, and magazines. The study is exploratory in nature.

Features of GST

One Nation One Tax - Numerous indirect taxes, including value-added tax (VAT), excise duty, and service tax, were superseded by the GST imposed by the Central and State Governments. It ended the cascading impact of taxes and introduced uniformity to India's taxation system.

Dual Structure - The two parts of the GST system are the State GST (SGST), which is imposed by the State Governments, and the Central GST (CGST), which is imposed by the Central Government. The Integrated Goods and Services Tax (IGST), which is gathered by the federal government and distributed to individual states, which is applicable to inter-state transactions. In addition to the relevant customs charges, imports of goods or services is regarded as inter-state supplies and are subject to the IGST.

Destination-Based Tax - GST is a destination-based tax that is applied at every point in the supply chain, from the producer to the final customer. It is used for value addition at every level, facilitating smooth credit flow and lessening the final consumer's tax burden.

Input Tax Credit - Businesses can use input tax credits under the GST to claim credit for taxes paid on inputs used in manufacturing or delivering goods and services. This lowers the total tax liability and helps to prevent double taxation.

Increased Compliance and Transparency - By encouraging more companies to participate in the formal economy, the GST seeks to improve tax compliance. With the digitization of procedures and electronic records, the transparent character of the tax system contributes to the reduction of tax evasion and the enhancement of transparency.

Impact of GST on Indian Economy

The goal of the Goods and Services Tax (GST) is to eliminate economic obstacles and establish a common market throughout India, complete with uniform tax rates and processes. The introduction of the Goods and Services Tax (GST) has led to heightened competitiveness for Indian-made goods and services in both domestic and foreign markets. Everyone who is involved such as industry, consumers, and government has benefitted from the introduction of GST. The introduction of the Goods and Services Tax (GST) has simplified the nation's taxation system. With the introduction of the Goods and Services Tax (GST), levies have decreased, as a result, the final client has to pay less tax. The retail industry's growth and production have been stimulated by the reduction in tax burden.

The goal of GST is to eliminate India's economic obstacles and create a single market with uniform tax rates and policies. 'Make in India' has been further bolstered by the introduction of GST. Under the terms of the central government's indirect tax regulations, state governments will no longer be required to keep many tax records. This includes service taxes like VAT, central excise, entertainment taxes, sales taxes, entrance charges, luxury taxes, and so forth. Additionally, there are now lower customs charges on exported goods. This has increased the nation's export rate. More Indian companies will be able to penetrate international markets because of the benefits of GST. There are a lot of long-term advantages to the GST in India.

Positive Impact of GST

Simplified tax structure - GST has made India's tax system simpler by imposing a single tax and making the calculations for it simpler. The purchaser receives a clear indication of the amount of tax he has paid upon payment for the goods.

Support for small and medium enterprises – The amount of GST to be paid depends on the size of the company and its annual turnover. This has benefited small and medium-sized businesses to reduce their burden of taxes.

More funds for production - By successfully reducing the total taxable revenue, GST has increased the amount of money available for production in an economy.

Enhanced operations throughout India - The implementation of a single, unified tax system has facilitated the easy transit of products throughout India. This has led to an increase in operations.

Increased volume of export - After the introduction of GST, production facilities have also experienced cost savings while producing items. The number of items exported has increased because of a decrease in custom duties.

Negative impact of GST

Impact on the common man - Since GST is an indirect tax, it is recovered by raising the selling price. This has an adverse effect on the average person since it also affects the families of the middle and lower middle classes.

Impact on the market - Businesses often still have problems with input tax credit programs, making it difficult to manage their working capital needs effectively. This is what caused the market to be negatively impacted by GST.

Impact on unemployment - From July 2017 to October 2023, India's unemployment rate increased from 5.36 to 10.05 with the introduction of the Goods and Services Tax in July 2017. Self-employment is increasing since it's easier to start a firm, but this is beneficial only for those who can afford it.

Impact of GST on Consumer Price Index (CPI)

The Consumer Price Index, or CPI, is a metric used to express changes in the average cost of a variety of household-purchased consumer goods and services. The effect of GST can be computed by factoring in the overall CPI. Following the implementation of the GST nationwide by the Indian government, the CPI was predicted to be approximately 3.24%. The government reasoned that since customers would only pay one single tax rather than multiple taxes on products and services, their purchasing power would improve. The actual CPI was found to be 4.61%. This indicates a 1.37% increase in the CPI.

Impact of GST on the common man’s pocket

The introduction of Goods and Services Tax (GST) has resulted in increased levies for buyers of products and services in India. However, the general public has reaped many long-term benefits from GST. Commodity prices fell as a result of manufacturers of consumer products, such as FMCG and the automobile industry, paying less in taxes. This further made its services accessible to more customers. A decrease in pricing is directly correlated with an increase in demand, which increases the profit cycle of production. In these kinds of situations, both the seller and the buyer receive a fair financial portion, which further promotes economic expansion. A rise in production also creates space for new jobs and higher wages. The introduction of GST has significantly reduced the opportunities for corruption and black money, protecting the money of the average Indian.

Conclusion

One of the largest tax developments in Indian history is the GST. Both buyers and sellers are impacted by the many benefits and drawbacks of GST. This will lower inflation, facilitate commercial dealings in India, and boost foreign direct investment there. The Goods and Services Tax (GST) has a negative effect on GDP since it raises the rate of inflation and increases the cost of specific goods and services like pharmaceuticals, telecom, dairy, cars, and other items. These factors must also be taken into account. On the one hand, expenditures associated with compliance have gone up as taxes have gotten simpler. Therefore, a thorough analysis of the effects of GST on the Indian economy is required. When assessing the impact of GST in India, both positive and negative factors should be taken into consideration. As we've seen, the introduction of the Goods and Services Tax (GST) has increased economic transparency in the nation. However, several industries initially experienced losses as a result of the GST. This wasn't limited to the Indian economy, in the nations where the Goods and Services Tax was introduced, the economy first encountered some difficulties. GST affects the economy in both positive and negative ways. The country's unified tax structure has made doing business easier, but it also causes losses for certain sectors due to higher commodity costs. Transparency promotes economic growth. As a result, opinions on how GST affects the Indian economy vary widely.

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