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IMPACT OF GST ON INDIAN ECONOMY

Prachi Vaish[1], Anirudh Chaudhary[2]

[1] MBA (Financial Management) Galgotias University
[2] MBA (Financial Management) Galgotias University

ABSTRACT

A taxation structure which facilitates easy of doing business and having no chance for tax evasion brings prosperity to a country's economy.

♦ Several indirect taxes get reduced in number after introduction of GST.

♦ GST has brought transparency in taxation regime as there won't be any hidden taxes.

♦ GST has replaced most of the previous multiple taxes such as excise duty, service tax, VAT with a single tax. After its implementation, GST has made India one common market which was fragmented by tax barriers.

Keywords: GST, Indirect Tax, Indian Economy (FMCG, Agriculture, E-commerce, Technology, Telecom Industry & service)

Introduction

- The introduction of the Goods and Services Tax (GST) is a significant economic reform aimed at streamlining the indirect taxation system in a country.
- The primary objective of introducing GST is to create a unified tax system that replaces multiple indirect taxes levied by the central and state governments. It aims to simplify the tax structure, reduce tax evasion, promote ease of doing business, and foster economic growth.
- GST is a comprehensive indirect tax levied on the supply of goods and services at each stage of the supply chain, from production to consumption. It subsumes various indirect taxes such as central excise duty, service tax, value-added tax (VAT), and octroi, among others.
- GST is implemented as a dual structure, with both central and state components.
- There are typically two components of GST:
    - Central Goods and Services Tax (CGST) levied by the central government
    - State Goods and Services Tax (SGST) levied by the state governments

Additionally, in the case of inter-state transactions, an Integrated Goods and Services Tax (IGST) is levied by the central government, which is then apportioned between the center and the states.

Hypothesis

H1- Before GST indirect taxes directly impact to the Indian Economy,

Ha1- After GST indirect taxes directly impact to the Indian economy.

Research Methodology

1. **Introduction**

To investigate the effects of GST on the Indian economy, Researchers collect the indirect taxes (including GST) data from 2012-13 to 2023-24 and run the same in MS-EXCEL and analyze the pre and post implementation of GST.

Research Design

2. **Research Approach**

- Researchers have adopted the combination of Descriptive and Exploratory research to investigate the effects of GST on the Indian economy.
- Descriptive to provide an overview and summarize the current state of the economy pre and post GST implementation

- Exploratory to delve deeper into understanding the underlying factors and mechanisms driving observed effects and to explore stakeholders' perspectives and experiences.

3. **Sampling**

- Population: Various sectors of the Indian economy (e.g. Technology, services, agriculture, FMCG).
- Sampling Technique: Stratified random sampling to ensure representation from different sectors and regions.
- Sample Size: Adequate sample size to ensure statistical significance.
- Statistical tools for analysis such are standard deviation, mean and compounded annual growth rate.

4. **Data Collection**

- Secondary data regarding GST, search engines, and the GST portal has been gathered from a variety of publications, research papers, and studies.

5. **Research Methods**

- Quantitative analysis - utilize secondary data from government reports, economic surveys, and use previous published research
- Statistical analysis - to measure changes in key economic indicators pre- and post- GST implementation.
- Qualitative analysis - use thematic analysis to identify emerging themes and insights regarding the impact of GST on selected sectors of the Indian economy.

6. **Statistical Tools**

- **Compounded annual growth rate (CAGR)**-The compound annual growth rate (CAGR) of your assets over a period of time longer than a year is displayed to you, which may fluctuate over time. Taking the time worth of money is preferred by CAGR. Researchres determine the compounded annual growth between 2 period and also determine the CAGR of collection of indirect taxes from 2012-13 to2023-24.
- **Standard Deviation**- The standard deviation restores the data set's original units of measurement; it is a widely used indicator of variability. It serves as the basis for several statistical tests as well, hypothesis testing. Researchers use this tool to differentiation between 5-year pre and 5-year post GST
- **Mean-** Mean is the average value. For calculating the mean, researchers take the 5-year in India indicates a shift towards the formalization of the economy. This is because more businesses become compliant and enter the formal sector, which naturally increases tax revenues. Researchers calculate the mean between 5-year pre and 5-year post indirect taxes and find that mean value differentiation is higher than the differentiation in the standard deviation.

Data Analysis and Interpretations

- The standard deviation and CAGR are being utilized to analyze the data. It is clear from the results shown in the analysis of variance summary tables that there are notable disparities between them, which is why more detailed intercomparisons of the CAGR have been conducted.
- The methods for managing the data are editing, categorizing, and tabulating.

Editing entails ensuring that the collected raw data is accurate, comprehensive, and relevant.

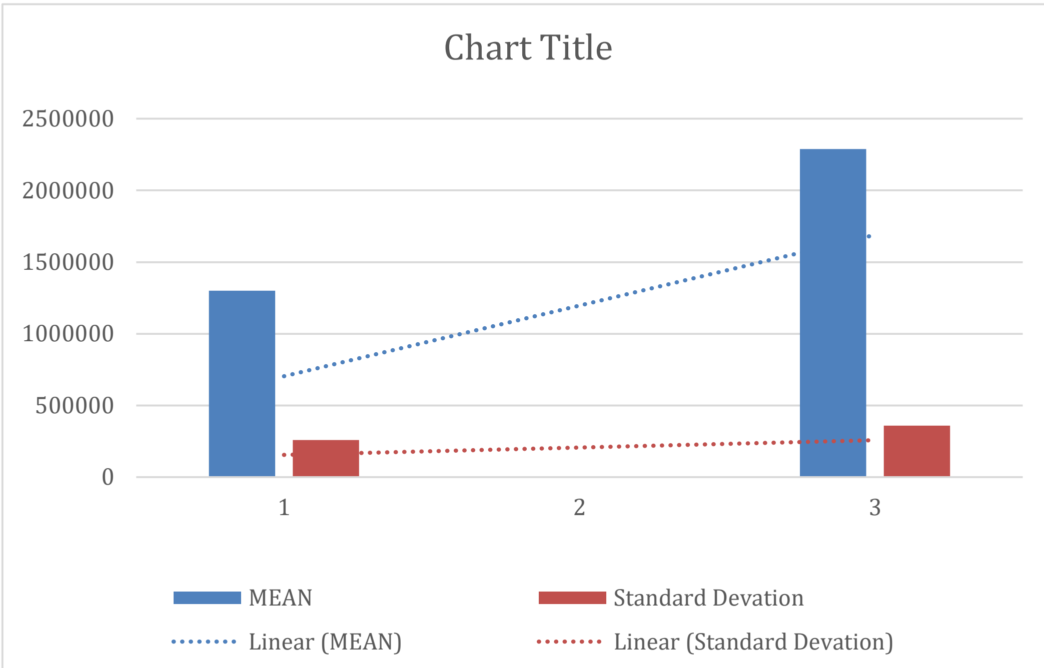
Tabulating involves transferring categorized data from data collection instruments to a tabular format for methodical examination. Additionally, interaction effects and main impacts have been provided.

- Explain the compound annual growth between two years and the computed CAGR between 2010–11 and 2023–24 indirect taxes (including GST) in the tabulated form of the gathered data.
- The rise in indirect taxes throughout the course of the two years is also computed in this table.
- Researchers analyze that before GST implementation, the Indian economy was raised, but not more, because tax evasion, no clarification in tax structure, and registration were also not required. The cascading effect and the different tax rates in different states were the main reasons for not improving the Indian economy before 2017. Also, the government was unable to set targets for the Indian economy before GST. Due to no tax evasion, clarification of tax structure, and others, the government targets a $5 trillion Economy by 2025.

Computation of Mean of pre and post GST collection of indirect taxes

Year	**Indirect taxes**	**Year**	**Indirect taxes**
2012-13	1036732	**2017-18**	1856945
2013-14	1119772	**2018-19**	2114691
2014-15	1217289	**2019-20**	2175630
2015-16	1466981	**2020-21**	2518737
2016-17	1662518	**2021-22**	2772954

MEAN	**1300658**	**MEAN**	**2287791**
Standard deviation	**258811.3**	**Standard deviation**	**359475.7**



Compounded Annual growth Rate of indirect taxes (including GST)

Year	**Indirect taxes**	**Growth**	**CAGR**
2012-13	1036732	-	4%
2013-14	1119772	8%	4%
2014-15	1217289	9%	10%
2015-16	1466981	21%	13%
2016-17	1662518	13%	13%
2017-18 (from July 2017)	1856945	27%	7%
2018-19	2114691	14%	1%
2019-20	2175630	3%	8%
2020-21	2518737	16%	5%
2021-22	2772954	10%	7%
2022-23	3189613	15%	3%
2023-24	3361858	5%	-
CAGR	10.30%	-	-

Growth (%) = Current year indirect taxes-previous year taxes / previous year taxes*100

Sector-wise Impact

Agriculture sector

1. Earlier Fertilizers taxed at 6% (1% Excise + 5% VAT), but under GST regime the tax on fertilisers has been increased to 12%.
2. Earlier only fresh milk taxed at 2% but under GST fresh milk is exempted and skimmed milk & condensed milk are taxed at 5% and 18% respectively.

Technology Sector

Sales of bundled software were subject to both service tax and VAT under the previous tax system. Most states have a 5 percent VAT rate and a 15 percent service tax rate. When IT items are manufactured, there is also an excise duty, so in this case the tax rate used to go beyond 20% but under GST regime there is flat rate of 18%.

E-Commerce

From the perspective of e-commerce enterprises, the earlier indirect taxes schemes were rather confusing. Because of this, there was widespread tax avoidance and evasion in this sector. However, the introduction of the Goods and Services Tax (GST) has resolved this entire confusion by giving clarity regarding the taxing values.

Telecom Industry

The price of services is directly impacted by the variation in GST rates between states. Customers utilize different recharge vouchers in different states since the Goods and Services Tax is a destination-based tax. For instance, suppose a recharge coupon's maximum retail price is Rs. 100 and the GST rates in Delhi and Haryana are respectively 20% and 25%. In Delhi and Haryana, the talk time will be available for Rs-83.8 and Rs-80, respectively. The consistency of recharge prices for prepaid customers across states will be a problem in the absence of a unified GST. Therefore, for telecom services across States/Union territories, a uniform rate of national GST, state GST, and interstate GST is essential.

FMCG sector

GST is payable throughout the supply chain (including the manufacturing stage) on inputs as well as on input services is available for setoff against GST on the supply of goods, which has reduced costs. Moreover, the set-off of excise and service tax was not available against VAT and CST, which increased the cost of goods.

Hypothesis Testing

The researcher has applied a **Paired t-test** with a 5% confidence level to check the impact of indirect taxes directly to the Indian economy (Before and after GST). They have calculated mean and standard deviation of indirect taxes of before and after GST assumptions. After analyze the paired t-test researchers find that the significance level less than 0.5%. It means null hypothesis rejected.

Paired sample Test

Paired Samples Statistics

		Mean	N	Std. Deviation
Pair 1	After	2287791.4000	5	359475.7179
	Before	1300658.4000	5	258811.2577

	Paired Differences					t	df	Sig. (2-tailed)
				95% Confidence Interval of the Difference				
	Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1 After - Before	987133.00	109694.63	49056.93	850929.12	1123336.88	20.122	4	.004

Conclusion

- GST affects the economy in both positive and bad ways. Having made the country's tax structure unified conducting business has made lot easier but it also causes losses for certain industries due to higher commodity costs.
- There have been difficulties, nevertheless, such as transitory inflationary pressures and more compliance requirements for small and medium-sized enterprises. Notwithstanding these difficulties, the GST has generally had a beneficial effect, and growth in the Indian economy is anticipated to continue because of its simplification of the tax code, there has been a rise in compliance and economic formalization.
- The origin-based tax system (earlier indirect system) has been enhanced into a straightforward, clear, cohesive, and logical destination-based tax system by the GST.
- It is anticipated by economists, meanwhile, that the adverse effects of GST would soon fade and become a source of competitive advantage for the Indian economy.

Recommendation and Suggestion

- It is suggested that government should opt plans and policies in this regard for positive implementation and their result.
- Special programs should be implemented to familiarize businesses and consumers with 0the functioning of GST.

- To ensure consumers understand the impact of GST on FMCG products, continued efforts are required to raise awareness. The government and consumer organizations can play a crucial role in educating the public about the benefits of GST and how it affects product prices.
- The government should implement a plan with GST where the chargeable rate of GST should be clear and precise, or cut down the rules and make a single rule for GST charges because many hotels, restaurants, etc. charge an extra rate of GST for earning purposes, and many consumers are not aware of that.

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