



IMPACT OF GOODS AND SERVICES TAX (GST) ON THE INDIAN ECONOMY

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ABSTRACT

This research paper provides a comprehensive analysis of the impact of the Goods and Services Tax (GST) on the Indian economy. Implemented in July 2017, the GST is a landmark tax reform aimed at simplifying the tax structure, unifying the Indian market, and promoting economic growth. Through an examination of empirical studies, official reports, and data, this paper assesses the effects of GST on various sectors, tax revenue, inflation, and the ease of doing business. The findings highlight both positive and negative consequences of GST on the Indian economy. In the manufacturing sector, GST has eliminated cascading taxes, enhanced supply chain efficiency, and reduced the tax burden on manufacturers. However, challenges related to compliance and increased working capital requirements persist. Similarly, the services sector has experienced improved tax compliance and formalization, although issues regarding service classification and tax applicability remain. Regarding inflation, the pre-GST period witnessed inflationary pressures due to anticipation, while the post-GST period initially saw a temporary decline, followed by relative stability eventually. Overall, GST has simplified tax compliance, eliminated inter-state trade barriers, and attracted investment, improving the ease of doing business. However, small businesses require support in adapting to the new compliance requirements. This research paper concludes with recommendations for addressing challenges and further refining the GST framework through policy reforms, technological advancements, and stakeholder collaboration.

Keywords: GST, Indian economy, tax reform, tax revenue, ease of doing business.

INTRODUCTION

Background: The Goods and Services Tax (GST) was introduced on July 1, 2017, in India with the aim of simplifying the complex tax structure, unifying the Indian market, and fostering economic growth. It replaced a myriad of indirect taxes levied by the central and state governments, streamlining the tax system and reducing cascading effects. The implementation of GST marked a significant milestone in India's economic reforms, promising to transform the business landscape and enhance competitiveness.

Objectives: This research paper aims to assess the impact of GST on the Indian economy. The study focuses on various aspects such as sectoral effects, tax revenue implications, inflationary effects, and the ease of doing business. By analysing empirical studies, available data, and expert opinions, this paper provides a comprehensive evaluation of the GST's influence on the Indian economy.

Methodology: To achieve the objectives of this study, a systematic review of existing literature, government reports, and economic surveys was conducted. Data from official sources such as the Central Statistics Office (CSO), the Reserve Bank of India (RBI), and the

Ministry of Finance were collected and analysed. Additionally, relevant studies and research papers were examined to gather insights into the impact of GST on the Indian economy.

OVERVIEW OF GST IN INDIA

Evolution and Implementation: The Goods and Services Tax (GST) in India has gone through a significant evolutionary process before its implementation. The idea of introducing a comprehensive indirect tax system was first proposed in the early 2000s. Over the years, various committees and task forces were formed to study and recommend the structure and implementation of GST. In 2016, the Constitution (101 Amendment) Act was passed by the Indian Parliament, paving the way for the implementation of GST. This act provided the constitutional framework and empowered both the central and state governments to levy and collect the GST. It also established the GST Council, consisting of representatives from the central and state governments, responsible for making key decisions such as tax rates, exemptions, and procedural rules. The implementation of GST took place on July 1, 2017. It replaced a complex web of central and state taxes, including excise duty, service tax, value-added tax (VAT), and others. Under the GST regime, the tax base was broadened, and a unified tax rate was applied to goods and services across the country. The GST regime in India follows a dual structure, that includes the Central GST (CGST) levied by the central government and the State GST (SGST) imposed by the state governments. Furthermore, an Integrated GST (IGST) is levied on inter-state transactions. Since its implementation, GST has undergone several changes and refinements based on feedback from businesses, industry associations, and tax experts. The GST Council meets regularly to discuss and address issues, introduce reforms, and provide clarifications on various aspects of the tax system.

Key Features: The GST introduced a comprehensive tax structure with a unified tax rate for goods and services across the country. It replaced multiple indirect taxes, such as excise duty, service tax, and value-added tax (VAT), simplifying the tax regime and reducing compliance costs. The GST also introduced input tax credits, enabling businesses to claim tax credits for the taxes paid on inputs. These features aimed to simplify the tax structure, enhance transparency, mitigate the cascading effect of taxes, and establish a unified market.

Tax Structure and Administration: The GST system in India is administered by the GST Council, which consists of representatives from the central and state governments. The Council is responsible for making decisions regarding tax rates, exemptions, and procedural changes. The GST Network (GSTN) acts as the technology backbone, facilitating online registration, filing of returns, and tax payments.

IMPACT OF GST ON VARIOUS SECTORS

Manufacturing Sector: The implementation of GST has had a positive impact on the manufacturing sector. One of the key benefits of GST is the elimination of the cascading

effect of taxes, which previously resulted in tax-on-tax at various stages of the supply chain. By allowing input tax credit, manufacturers can now offset the taxes paid on inputs against their tax liability on the final product, reducing the overall tax burden and improving cost competitiveness. The unified tax rates under GST have also contributed to a more streamlined and predictable tax regime for manufacturers. Prior to GST, different states had different tax rates and regulations, making compliance complex and challenging for businesses operating across multiple states. With the implementation of GST, manufacturers now face uniform tax rates and a harmonized system across the country, simplifying compliance and reducing administrative burdens. Moreover, GST has facilitated the ease of doing business for manufacturers. It has eliminated multiple state-level taxes such as central sales tax, octroi, and entry tax, which previously hindered the movement of goods across state borders. This has resulted in a more seamless and efficient movement of goods, reducing logistical costs and enhancing supply chain efficiency.

Additionally, GST has played a significant role in promoting the formalization of the manufacturing sector. The transition from a fragmented tax system to a unified tax structure has encouraged previously unregistered manufacturers to come under the tax net. This formalization has not only contributed to increased tax revenues but has also provided businesses with access to various benefits and incentives, fostering a conducive environment for investment and growth. Overall, the implementation of GST has had a transformative impact on the manufacturing sector in India. It has simplified the tax structure, reduced the overall tax burden, enhanced competitiveness, improved ease of doing business, and promoted formalization, ultimately driving growth and development in the manufacturing sector.

Services Sector: The services sector, which contributes significantly to India's GDP, has experienced significant changes and implications following the implementation of the Goods and Services Tax (GST). One of the key advantages of GST in the services sector is the simplification of the tax structure. Previously, service providers had to navigate through multiple indirect taxes such as service tax, VAT, and entertainment tax. With the introduction of GST, these taxes have been replaced by a single tax, making compliance more straightforward. Additionally, GST has contributed to improved tax compliance and formalization in the services sector. The registration process and unified tax rates have encouraged service providers to come under the tax net, promoting transparency and accountability. This formalization has not only enhanced the credibility of service providers but has also led to increased tax revenues for the government.

However, challenges exist within the services sector under GST. Determining the appropriate classification of services and the applicable tax rate can be complex. Service providers often face difficulties in understanding the precise tax implications for their specific services,

which can result in compliance challenges and potential disputes. Moreover, certain services, such as those provided by healthcare and educational institutions, are exempt from GST. The exclusion of these services from the tax net has created challenges in terms of input tax credit eligibility for businesses that provide both taxable and exempt services. Despite these challenges, the implementation of GST has undoubtedly brought about positive changes in the services sector. It has streamlined tax compliance, enhanced transparency, and contributed to the formalization of service providers. Continued efforts to address classification issues and provide clarity on tax applicability will further improve the functioning of the services sector under GST.

Trade and Logistics Sector: The Goods and Services Tax (GST) has had a significant impact on the trade and logistics sector in India. The implementation of GST has streamlined the movement of goods across state borders by eliminating multiple state-level taxes and checkpoints. This has resulted in reduced transportation costs, improved logistics efficiency, and faster turnaround times for businesses engaged in interstate trade. Additionally, GST has fostered a more integrated and unified market, enabling businesses to expand their operations and reach a wider customer base. Despite some compliance challenges faced by small-scale traders and transporters, GST has overall facilitated smoother trade and logistics operations in India.

EFFECTS ON TAX REVENUE

Increase in Tax Base: The implementation of the Goods and Services Tax (GST) in India has led to a significant expansion of the tax base. Prior to GST, there were numerous businesses operating in the informal sector that evaded taxation. However, with the introduction of GST, these previously unregistered businesses have been brought into the formal economy. The requirement to register for GST and comply with its provisions has encouraged greater tax compliance and enhanced transparency. This expansion of the tax base has not only increased tax revenues for the government but has also contributed to a more equitable and inclusive tax system, ensuring that a broader segment of the economy contributes to national development.

Streamlining Tax Administration: The implementation of the Goods and Services Tax (GST) in India has brought about significant reforms in tax administration, aiming to streamline and modernize the system. GST has introduced several measures to simplify tax procedures, enhance compliance, and improve the efficiency of tax administration. One of the key changes in tax administration under GST is the establishment of the Goods and Services Tax Network (GSTN). The GSTN acts as a robust technology backbone, providing a digital platform for taxpayers to register, file returns, and make tax payments online. It facilitates seamless information exchange between taxpayers, the central government, and state tax authorities, reducing manual intervention and enhancing transparency. Additionally, GST has

implemented a unified and standardized tax return filing system. Under the previous tax regime, businesses had to file separate returns for different taxes and jurisdictions. However, GST introduced a single, consolidated return known as the GST return. This simplification has reduced the compliance burden for taxpayers and streamlined the process of tax filing. Moreover, GST has adopted a risk-based approach to tax audits and inspections. The focus has shifted from indiscriminate audits to targeted audits based on risk assessment and data analysis. This approach ensures efficient utilization of resources and minimizes disruptions to businesses, while effectively detecting and addressing non-compliance.

Furthermore, the introduction of technology-driven measures, such as e-way bills and electronic invoicing, has played a crucial role in streamlining tax administration. E-way bills facilitate the seamless movement of goods by generating electronic documents for interstate transportation, while electronic invoicing digitizes the invoicing process, reducing paperwork and ensuring accuracy. The implementation of GST has also encouraged collaboration and coordination between the central and state tax authorities through the GST Council. The council, comprising representatives from the central and state governments, meets regularly to discuss key policy decisions, address challenges, and provide clarifications, fostering a cooperative and cohesive tax administration framework.

Overall, the streamlining of tax administration under GST has resulted in a more efficient and transparent system. The digital infrastructure, simplified tax filing, risk-based audits, and technology-driven measures have improved compliance, reduced administrative burdens, and enhanced the effectiveness of tax administration in India. Continued efforts to leverage technology and promote cooperation among stakeholders will further strengthen tax administration under GST.

Challenges and Reforms: The implementation of the GST in India has encountered certain challenges while prompting ongoing reforms to address them. These challenges primarily revolve around compliance, technology, and administrative processes. One of the key challenges has been the complex nature of the GST framework. The multiple tax rates, classification issues, and frequent changes in regulations have posed difficulties for businesses in understanding and complying with the tax system. To address this, the government has undertaken efforts to simplify the tax structure, provide clearer guidelines, and offer support through initiatives such as taxpayer awareness programs and online resources. Another significant challenge has been the technological infrastructure required for seamless GST compliance. The initial rollout of the GST portal faced technical glitches and capacity issues, hindering taxpayers' ability to file returns and claim input tax credits. Subsequently, the government has made continuous efforts to enhance the Goods and Services Tax Network (GSTN) platform, ensuring its stability and scalability to accommodate increasing taxpayer volumes.

However, the administrative processes under GST have posed challenges, particularly for small businesses and taxpayers with limited resources. Compliance requirements, such as the frequency of returns and complexities in input tax credit reconciliation, have placed burdens on businesses. The government has responded by raising the turnover threshold for GST registration for small businesses, introducing simplified quarterly returns, and facilitating ease of compliance through measures like the Composition Scheme. In addition to these challenges, the GST system has witnessed ongoing reforms aimed at addressing concerns and enhancing its effectiveness. The government has undertaken periodic revisions of tax rates to align them with industry demands and to reduce the compliance burden. The introduction of e-invoicing, e-way bills, and electronic tax credits have further streamlined processes and reduced paperwork. Continuous engagement with stakeholders, including businesses and tax professionals, has been an integral part of the reform process. Feedback mechanisms, consultations, and the GST Council's decision-making framework have facilitated regular discussions, policy adjustments, and clarifications to ensure a smooth and effective implementation of GST.

While challenges have emerged during the implementation of GST, the government's proactive approach towards reforms and addressing concerns has been instrumental in mitigating the challenges and improving the functioning of the tax system. Ongoing efforts to simplify compliance, enhance technology infrastructure, and engage with stakeholders will further strengthen the GST framework in India.

INFLATIONARY EFFECTS

Pre- and Post-GST Inflation Trends: The implementation of the Goods and Services Tax (GST) in India has had a notable impact on inflation trends. Prior to GST, the Indian tax system consisted of multiple indirect taxes levied at different stages of the supply chain. This complex tax structure often led to price distortions and inflationary pressures. However, post-GST, the unified tax structure and input tax credit provisions have streamlined the tax system and mitigated the cascading effect of taxes. As a result, there has been a moderation in inflationary pressures, particularly in sectors directly affected by GST, such as manufactured goods and services. This has contributed to a more stable and predictable inflation environment in the post-GST era.

Impact on Consumer Prices: GST has had varying effects on consumer prices. While the prices of some essential goods have decreased due to lower tax rates, the prices of certain services and luxury goods have increased. The formalization of businesses and the implementation of digital invoicing and record-keeping have curbed tax evasion practices and increased accountability. This has contributed to a fairer and more competitive market, ensuring that consumers are not subjected to inflated prices due to tax evasion. It is important to note that the impact of GST on consumer prices can vary across different sectors and

products. Factors such as the input tax credit availability, changes in supply chain efficiencies, and market dynamics can also influence consumer prices in the GST era. Nonetheless, overall, GST has played a crucial role in streamlining the tax system and contributing to a more stable and transparent pricing environment for consumers.

Effect on GDP Growth: The impact of GST on GDP growth has been a subject of debate. In the short term, the disruption caused by the transition to the new tax regime had a dampening effect on economic growth. However, overall, GST is expected to contribute positively to GDP growth through improved tax compliance, increased efficiency, and enhanced investment opportunities. One of the key benefits of GST on GDP growth is the elimination of inter-state barriers and the simplification of the tax structure. Previously, businesses faced challenges in operating across state borders due to varying tax regulations and entry barriers. However, with the introduction of GST, the movement of goods and services has become smoother, reducing transaction costs and enhancing market integration. This has resulted in increased trade and investment, positively impacting GDP growth. The removal of tax cascading and input tax credit provisions have incentivized businesses to optimize their supply chains and reduce costs. This has led to increased productivity and competitiveness, driving GDP growth.

EASE OF DOING BUSINESS

Simplification of Tax Compliance: GST has simplified tax compliance for businesses by replacing multiple tax filings with a single unified return. The removal of inter-state barriers has facilitated the movement of goods and reduced logistical challenges. However, smaller businesses, particularly those in the informal sector, have faced difficulties in adapting to the new compliance requirements.

Reduction in Inter-State Barriers: One of the key objectives of GST was to create a common market by removing inter-state trade barriers. The implementation of GST has streamlined the movement of goods across state borders, reducing transportation time and costs. This has improved the ease of doing business, particularly for companies engaged in interstate trade.

Boosting Investment and Business Environment: GST has created a more favourable investment and business environment in India. The unified tax regime has eliminated the need for businesses to navigate through complex tax structures and multiple tax jurisdictions. This has encouraged foreign direct investment (FDI) and domestic investment, contributing to economic growth and job creation.

CONCLUSION

SUMMARY OF FINDINGS

The implementation of GST has had a transformative impact on the Indian economy. It has simplified the tax structure, broadened the tax base, and enhanced tax administration efficiency. GST has positively influenced sectors such as manufacturing, services, and trade, contributing to increased formalization, efficiency gains, and investment opportunities. GST has led to an expansion of the tax base, bringing previously unregistered businesses into the formal economy. This has increased tax revenues and promoted a more equitable tax system. However, challenges remain, particularly for small-scale businesses in meeting compliance requirements. Inflation trends have been moderated due to the elimination of tax cascading, resulting in more stable and predictable prices for consumers. GDP growth has been positively impacted through increased trade and investment, improved tax compliance, and efficiency gains in various sectors.

Overall, the findings of this research indicate that while GST has brought about significant benefits, there are challenges to address and ongoing reforms to be implemented. Continued efforts to simplify compliance, enhance technological infrastructure, and address the concerns of small businesses will further strengthen the GST framework and contribute to sustainable economic growth in India.

IMPLICATIONS FOR THE INDIAN ECONOMY

The long-term implications of GST on the Indian economy are promising. GST is expected to contribute to higher GDP growth, improved ease of doing business, and enhanced tax compliance which will have positive impact on tax revenues and fiscal consolidation. The introduction of GST has expanded the tax base and enhanced tax compliance, leading to higher revenue collections for the government. This has provided the government with the necessary resources to invest in infrastructure development, social welfare programs, and other critical sectors, fostering economic growth and public welfare. However, certain challenges, such as addressing the concerns of small businesses and fine-tuning the tax structure, need to be addressed for maximizing the benefits of GST. Overall, GST has strengthened tax administration, expanded the formal economy, improved the business environment, and mitigated inflationary pressures. These implications, coupled with ongoing reforms and policy measures, are expected to fuel sustainable economic growth, enhance competitiveness, and create a favourable environment for businesses to thrive in India.

RECOMMENDATIONS FOR FURTHER IMPROVEMENT

To further improve the impact of GST, policymakers should focus on addressing implementation challenges, providing clarity on tax regulations, and simplifying compliance procedures. Ongoing reforms, such as rationalizing tax rates and addressing classification

issues, will contribute to a more robust and efficient GST framework. Continuous dialogue between the government, industry stakeholders, and tax experts will be crucial for refining GST policies and ensuring its long-term success in driving economic growth.

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