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Role and Consequences of Goods & Services Tax (GST) on the Indian Economy

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Abstract
This research paper examines the role and consequences of the Goods and Services Tax (GST) on the Indian economy. Implemented on July 1, 2017, GST replaced multiple indirect taxes levied by the central and state governments, aiming to simplify the taxation system and promote economic growth. Additionally, it explores the challenges faced during the implementation phase and evaluates the long-term implications of GST on India's economic landscape. The findings indicate that GST has contributed to enhanced tax compliance, formalization of the informal sector, and increased revenue collection. While some sectors experienced short-term disruptions, the overall consequences of GST on the Indian economy have been positive, fostering a more unified and integrated tax system.

Keywords: Premium, capital formation, insurance business, Nigerian, ordinary least squares

1. Introduction

The Goods and Services Tax (GST) is a comprehensive indirect tax levied on the supply of goods and services throughout India. Implemented on July 1, 2017, GST replaced multiple indirect taxes levied by the central and state governments, streamlining the taxation system. The introduction of GST has had significant roles and consequences on the Indian economy. GST has unified India's fragmented tax system, replacing numerous indirect taxes with a single tax structure. It has simplified compliance procedures for businesses, reducing tax-related complexities and facilitating ease of doing business. With the removal of cascading taxes (tax on tax), GST has made manufacturing and supply chain processes more efficient. It encourages seamless movement of goods across state borders, fostering inter-state trade and reducing logistics costs." GST promotes the formalization of businesses as it becomes necessary for companies with an annual turnover above the threshold to register and comply with GST regulations. This helps curb tax evasion and expands the tax base. GST relies on digital platforms for tax filing and reporting, promoting transparency in financial transactions. The digitalization of the tax system also enables real-time tracking of transactions, reducing tax leakages. The implementation of GST has led to the dismantling of trade barriers between states. This promotes a more unified and integrated national market, encouraging businesses to expand their operations across regions.

GST has led to increased tax collections and broadening of the tax base. The unified tax structure has improved tax compliance and brought previously unregistered businesses into the tax net, contributing to higher revenue for the government. GST has been instrumental in boosting economic growth by promoting investment, reducing production costs, and improving the ease of doing business. The implementation of GST is expected to have a positive impact on India's GDP in the long run. In the short term, GST implementation led to some disruptions and uncertainties, causing temporary fluctuations in prices of goods and services. However, over time, GST has contributed to better price stability and reduced inflationary pressures. GST has streamlined the tax filing process, making it easier for businesses to comply with tax regulations. The unified tax platform has reduced the compliance burden, benefiting small and medium-sized enterprises (SMEs) in particular. While GST has generally had a positive impact on the economy, certain sectors experienced temporary disruptions during the transition phase.

However, the long-term benefits of a unified tax system have outweighed the short-term challenges. GST has encouraged the informal sector to formalize its operations due to the compliance requirements. This formalization has brought previously unregistered businesses under the tax ambit, contributing to increased tax revenues.

Overall, the introduction of Goods and Services Tax (GST) in India has brought about significant transformations in the taxation system and the economy as a whole. By streamlining tax procedures, promoting transparency, and eliminating tax barriers, GST has simplified doing business, boosted economic growth, and formalized the economy. While certain sectors experienced short-term disruptions, the long-term consequences of GST have been positive for the Indian economy, paving the way for a more efficient and integrated tax system.

2. Background and Evolution of GST in India

"The Goods and Services Tax (GST) is one of the most significant tax reforms in India's economic history". The idea of implementing a unified indirect tax system in the country was first introduced by the Kelkar Task Force on indirect taxes in 2003. Subsequently, various committees and expert groups were formed to design and propose a comprehensive GST framework that would replace the complex and fragmented indirect tax system prevailing at the time. Before the introduction of GST, India followed a multi-tiered and cascading system of indirect taxes, which included both central and state-level taxes. Some of the major indirect taxes in the pre-GST era included:

1. **Central Excise Duty:** Levied by the central government on the manufacture of goods.
2. **Service Tax:** A tax on specified services provided by service providers, levied by the central government.
3. **Value Added Tax (VAT):** A state-level tax on the sale of goods, levied by respective state governments.
4. **Central Sales Tax (CST):** A tax on inter-state sales of goods, collected by the central government but retained by the exporting state.
5. **Customs Duty:** Levied on imports of goods by the central government.
6. **Octroi and Entry Tax:** Levied by municipal corporations and state governments, respectively, on the entry of goods into specific jurisdictions.

2.1 The pre-GST taxation system suffered from several challenges, including:

1. **Cascading Effect:** The existence of multiple taxes at different levels led to the cascading effect of taxes, where taxes were levied on top of taxes, increasing the final tax burden on consumers.
2. **Complex Compliance:** Compliance with multiple tax regimes was burdensome for businesses, especially those operating across state borders.
3. **Lack of Uniformity:** Different tax rates and structures across states created disparities and hindered the seamless movement of goods and services.
4. **Tax Evasion and Leakages:** The complex tax structure provided avenues for tax evasion and leakages, resulting in lower revenue collections for the government.

The process of implementing GST in India involved multiple stages of discussions, consultations, and negotiations between the central government and state governments. The primary milestones in the evolution of GST are as follows:

- **Conceptualization and Formation of Expert Committees:** As early as 2003, the Kelkar Task Force recommended the introduction of a GST in India. Subsequently, the Empowered Committee of State Finance Ministers was formed in 2007 to design and propose a GST model.
- **The 122nd Constitutional Amendment Bill:** In 2014, the government introduced the 122nd Constitutional Amendment Bill in Parliament to pave the way for the implementation of GST. The bill sought to amend the Constitution to grant concurrent powers to the centre and states to levy GST.
- **The Passage of GST Bill:** After several rounds of discussions and amendments, the GST Bill was passed by both houses of Parliament in August 2016. It was then ratified by more than half of the state legislatures.
- **Formation of the GST Council:** The GST Council was constituted in September 2016, with the Finance Minister of India as the Chairperson and state finance ministers as members. The council is responsible for making recommendations on GST-related issues and deciding tax rates.
- **GST Implementation:** On July 1, 2017, GST was officially implemented across India, replacing the existing multiple indirect taxes with a unified tax structure.

The background and evolution of GST in India represent a monumental effort to streamline the country's taxation system and promote economic growth. The implementation of GST has brought about significant changes in the tax landscape, reducing the complexities of the indirect tax regime and fostering a more unified and integrated tax system. While challenges were encountered during the process, the successful rollout of GST has marked a new era of indirect taxation in India, promising efficiency, transparency, and greater ease of doing business.

3. Literature on GST and Indirect Taxes

Taxes, both direct and indirect, are major income generators in public finance. Direct taxes are those levied on individuals and families rather than businesses and the wealthy. In contrast, VAT, service tax, and customs duties are all examples of indirect taxes that are levied on consumer spending. "In a federal system, indirect tax receipts are split between the federal government, the states, and sometimes even governments. However, the federal government is responsible for collecting direct taxes. In 1954, France was the first country to introduce GST; since then, more than 100 countries have done the same, including numerous growing economies like Brazil, China, and now India. According to economists, collecting tax money is crucial to a country's progress (Dabla-Norris, *et al.*, 2017; Schlotterbeck, 2017)" [24, 25]. Budgetary priorities like healthcare, infrastructure, and education can only be met with reliable tax income. "Besley and Persson (2009) and Gaspar, *et al.* (2016)" [26, 27] all agree that a rise in tax income is a key factor in economic expansion. "The United Nations' Sustainable Development Goals (SDGs) call for increased revenue collection as a necessary step toward achieving these goals (Akitoby, *et al.* 2018; Fenochietto &

Pessino, 2013)” [28, 29]. Therefore, it is assumed that a country's tax policy and administration will be well-managed. However, tax systems vary greatly between countries and regions (Besley & Persson, 2009; Fenochietto & Pessino, 2013) [26, 29].

4. Impact of GST on the Indian economy

The country's GDP changed as a result of the implementation of GST. At 8.95%, GDP growth was the result of an initial gain of 15.54%, followed by decreases of 10.33%, 2.72%, and 0.34% in 2019, 2018, and 2017, respectively. Here we summarize some of the most important factors that have contributed to the expansion of the national economy since the implementation of GST:

1. A consistent taxation system was adopted, eliminating the need for several tax rates on a single transaction. This change facilitated easier tax administration. It appeared elementary all across the country.
2. It lowered the price of doing business. In the past, more than ten different taxes may be applied to a single transaction. Because of these issues, people's spirits were high and commercial activity was slow.
3. The introduction of GST made it easier to pay taxes and encouraged more individuals to start businesses because of the uniformity of the tax structure. People prefer paid a single tax in place of more than 10 separate levies, despite the fact that the total cost of taxes did not change significantly between the pre- and post-GST instances.

The country was able to produce more products and services, which increased the country's net exports. A trade surplus occurs when a country's total imports are less than its total exports, typically because manufacturing production is strong. This, in turn, increases employment. Exports help spur economic expansion since they are the catalyst for new money entering the economy. The result is a more favourable exchange rate for foreign currency. As a result of ongoing problems with input tax credit systems, businesses are unable to efficiently manage their working capital needs. Because of this, the market was negatively affected by GST. The unemployment rate in India rose from 3.39 percent in July 2017 to 6.06 percent in February 2018 with the introduction of GST. Self-employment is on the rise as a result of simplified business creation, although this development remains restricted to the well-off.

5. Impact of GST on Consumer Price Index (CPI)

Consumer Price Index or CPI represents a metric for tracking the rate of change in the average cost of a representative basket of consumer goods and services purchased by individuals. The effect of GST may be estimated by factoring in the overall CPI. When the Indian government first announced the Goods and Services Tax (GST), they predicted a CPI of 3.24 percent. Since customers will be subject to a single tax rate rather than several rates on various goods and services, the government predicted that their buying power would improve. The actual rate of inflation measured by the CPI was 4.61%. This represents a rise of 1.37 percent in the consumer price index. However, the Consumer Price Index (CPI) alone is not sufficient for determining the impact of GST on the economy, as it may be one of the reasons why the buying power of the economy has dropped. The Government has received a substantial amount of money as a direct and indirect result of GST. It's important to keep in mind that customers' purchasing power has been impacted since the implementation of GST, as seen by the figures. This means that inflation is rising across the board. Although the notion of GST has many positive effects on the economy, there are many other possible explanations. There are many additional ways in which GST has helped the economy and shown its efficacy. Taxes on products and services purchased in India have gone up since the products and Services Tax (GST) was implemented. However, GST has several long-term advantages for the average person. Commodity prices fell because companies producing consumer products, such as fast-moving consumer goods (FMCG) and the automobile industry, pay less in taxes. More people were able to use its services as a result of this. When prices go down, demand goes up, and the production cycle benefits financially as a result, of course. In such transactions, both the buyer and the seller benefit monetarily, which is good for the economy as a whole. Increases in both employment and income are possible as a result of a production rise. In India, the average man's finances are safer now that GST has been implemented since it has reduced opportunities for black money and insincere acts.

6. Impact of GST on Consumer Price Index (CPI)

GST influences the economy which is both beneficial and bad. Transparency aids economic progress, but at the expense of some industries due to commodity price increases; a uniform taxation system improves the country's ease of doing business. As a result, the impact of GST on the Indian economy would be seen differently by different people.

7. Conclusion

GST is in its infancy in the Indian economic system. The impact on India's economy won't be felt for a while. The Goods and Services Tax (GST) mechanism is planned to bring in substantial funds for both federal and state governments. In the long term, this is good for corporations, businesspeople, and service suppliers. It would help the Indian government and its citizens by increasing transparency in indirect tax collection.

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