

# A Review on Impact of GST on Indian Economy

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## Abstract

The Goods and Services Tax (GST) is a comprehensive idea that streamlines the complex tax system while also aiding in a country's economic development. The Goods and Services Tax (GST) is an all-encompassing national tax levied on production, trade, and use. On July 1, 2017, the Goods and Services Tax (GST) was implemented. The reason for the new tax was to consolidate all other forms of indirect taxation into one simple rate. Indirect taxes including central excise tax, service tax, value-added tax, and entertainment tax were all rolled into one with the introduction of GST. This monumental change has made it simpler for Indian people to complete their tax returns than it was before. The effects of GST on the Indian economy are also discussed.

**Keyword:** GST, Goods and Services Tax, Indian Economy, Indirect Tax, Innovation Implementation, Public Policy.

## INTRODUCTION

In recent years, India's economy has been among those with the highest growth rates. Several reasons, including market reforms, a flood of FDI, rising FX reserves, a thriving IT and real estate industry, and a robust capital market, have contributed to this expansion. Indirect taxes have long been the backbone of India's tax system. Before tax changes were implemented in the 1990s, indirect taxes brought in the lion's share of tax money. The bulk of India's population is impoverished, therefore expanding the base of direct taxes has inherent constraints, which was the main rationale for relying heavily on indirect taxes. [1]

However, the indirect taxation system in India is characterized by a cascading, distorted tax on the production of goods and services, which in turn leads to reduced productivity and sluggish economic development. Goods and Services Tax (GST) is needed to replace the many other taxes already in place, some of which are imposed at the federal level and others at the state level. [2]

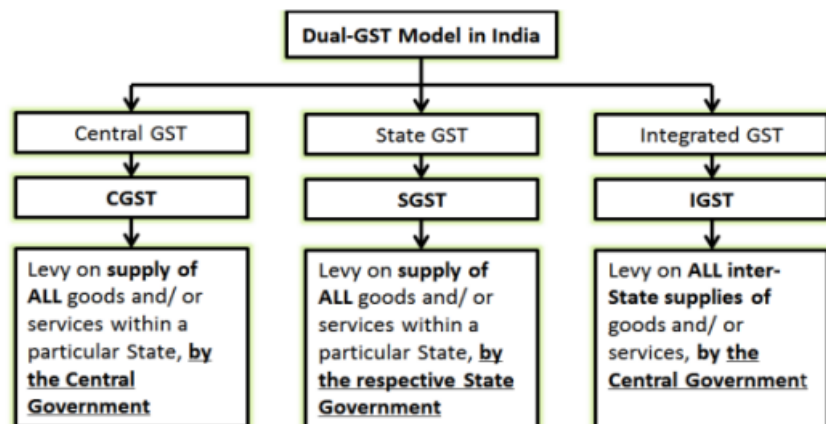


Figure 1: Elements of GST Structural Model in India

The number of MNEs operating in India and the volume of commerce between the country and others have both expanded in recent years, reflecting the widespread perception of India as an exciting and promising place to put money. The government may now take advantage of a plethora of new possibilities to reform the tax system. [3]

#### A. Structure of GST

The Goods and Services Tax (GST) is a two-pronged taxation model. Taxes are managed, collected, and distributed between the federal government and individual states according to the kind of transaction. GST includes the following tax elements: [4]



**Figure 2: Structure of GST**

#### B. Positive Impacts of GST in India

- The introduction of GST will increase government income by broadening the tax base. There will be a unified system for collecting indirect taxes.
- The flow of illegal funds will be restricted as a result. This is only possible if the "kacha bill" mechanism often used by merchants is restricted.
- The implementation of GST would help to eradicate corruption from the nation.
- GST will reimburse businesses for taxes already paid by their suppliers. The objective is that by expanding the pool of vendors and suppliers subject to taxes, this will encourage manufacturers to do so.

#### C. Negative impact of GST in India

- Due to the large volume of GST returns that must be filed by each business, a dedicated team of record keepers is essential.
- Tax administration employees, at both the federal and state levels, would need to be well taught in terms of idea, law, and procedure for the GST to be effectively implemented.
- It will take time for the general public to get fully acquainted with this new tax.

- Since this is a tax on purchases, the location where the service was rendered must be established.
- Compliance may be improved through better invoicing and accounting practices.

## II. LITERATURE REVIEW

There are several academic publications and studies that provide light on GST. The results of previous research are given.

(Li & Yang, 2021) [5] Tax and fee reduction measures implemented by China over the last several years have played a significant role in stabilizing the country's economy and propelling its digital economy forward. The research is broken into six parts. First, an introduction to the digital economy introduces its definitions and implications, along with the importance of its advances. Research on tax and fee reductions is described for nations throughout the globe based on three aspects, namely research aims, tax-reduction policy outcomes, and data and methodology.

(Mehrotra & Kalra, 2020)[6] The GST helps to construct a new India by creating a single country, one tax, and a single market. The GST is a boon to families. The implementation of GST would result in significant changes

in tax collection in India. As of the first of July, 2017, the convoluted system of several indirect taxes was replaced with a simple dual Goods and Service Tax. It discusses the economic ramifications of GST and its influence on India's economy in a study paper. The study is exploratory in nature, and the majority of the information used to compile it comes from secondary sources. The research indicated that the implementation of the GST would broaden the tax base, enhance tax compliance, and eliminate state-to-state rivalry.

**(Kumaraswamy, 2020) [7]** This year's "Goods and Services Tax (GST)" reform in India was hailed as the most radical and comprehensive indirect tax reform since the country's inception. Short-term working capital needs of "Small and Medium Enterprises (SMEs)" in India were shattered by the recent tax change. This study examines the impact of the GST on small and medium-sized businesses' operating capital. A dummy variable for GST impact has been included in three study models, which include the primary components of working capital: average collection period, average payables period, inventory conversion period. Using the Random Effects GLS approach, a mathematical model described in the study has been evaluated. Credit needs had increased as well. As a result, policymakers and financial institutions in India would have a better understanding of how to put into action plans that support "small and medium-sized businesses (SMEs)" thrive in today's tough climate.

**(Vyshak P K | Vishnu P K | Sindhu Sasi, 2020) [8]** The retail sector stands to gain greatly from the new GST system, which expands the advantages of GST for consumers. Calicut District, Kerala's Calicut District, will be the focus of this investigation. A well-structured questionnaire is used to gather data from a wide range of Calicut area shops. The research found that although GST had a short-term negative effect on store performance, it had a long-term favourable effect. In terms of satisfaction, the vast majority of merchants are content with the way the GST has been applied.

**(Gautam et al., 2019) [9]** The introduction of the Goods and Services Tax (GST) has had varying degrees of influence on various services. There are no cascading taxes on IT services anymore since they follow the principle of "One Tax, One Nation". It has made things easier for online software sellers since it clearly identifies the items and services they provide. Because of this, service providers are able to charge customers less. Input machinery costs have decreased. CGST registration and payment are now requirements for enterprises operating in several states.

Decentralization registration makes it more difficult to keep track of tax filings and other financial reporting activities. Despite the fact that the cost savings were minimal, there were other advantages highlighted in the article.

**(G. A. Kumar et al., 2019) [10]** It was the goal of the study to learn about the following things: The effect of GST on Chennai's restaurant industry; the post-GST prices charged by these establishments; and the level of satisfaction among restaurant owners with the post-GST prices. Customers' contentment with post-GST pricing; Suggestions for improving business in restaurants in Chennai are sought. The study's findings demonstrated that trade in formerly unregulated commodities, such as oilseeds, pulses, and cereals, has become more organised and, as a result, more easily accessible in terms of production and consumption. Everything from the purchase through the selling of the goods or service would be recorded, resulting in increased openness in business. This means that the new GST system will have a positive impact on both consumers and restaurant owners, which means that we'll have more motivation to eat out in our neighbourhoods.

**(S. Kumar, 2018) [11]** The introduction of the Goods and Services Tax (GST) in India has transformed the country's tax system from a complicated one that included about 500 separate levies to a more simplified one that includes only three primary tax categories. It is the goal of this qualitative, exploratory, and non-empirical research to examine the impact of GST on the Indian economy, with a focus on the online retail business in India, specifically. For the study of the Indian Government, researchers looked at reports from several government offices, including the Central Board of Excise and Customs, as well as reports from the GST Council up to its 30th meeting in September 2018. They also conducted interviews with government officials. For online businesses, suppliers, and the general public, this document may be a valuable resource for understanding and implementing changes brought about by the GST Act.

**(Gupta, 2018)[12]** Transparency and simplicity for taxpayers, as well as assistance for the expansion of the Indian economy, are the ultimate goals of the GST regime's integration of numerous indirect taxes. The majority of suppliers and retailers are still reluctant to register for GST in order to escape the weight of new rules and increased costs of accounting as a result of the new GST regulations. Small-scale retailers, producers, and wholesalers aren't thrilled about the GST because they believe the tax rates are too high, and they aren't ready to adopt it. Small and

medium-sized businesses are also said to be puzzled about the transition from the old tax system to the new GST and invoicing procedure. Retailers and merchants in the textile business are unsure or unclear about input tax credit.

### III. CONCLUSION

Due to globalization, businesses are rapidly evolving. The increasing volume of international commerce has increased the significance of any country's tax system and policies. GST has a good effect on businesses in today's global marketplace.

The introduction of GST in India marks an important turning point in the country's aim for economic prosperity in the years to come. GST will be savoured and cherished by future generations. To sum up, GST is a huge benefit for India that would speed up the process by which we join the ranks of the industrialized countries.

From the above, it is clear that GST will benefit both producers and consumers by reducing the number of taxes they must pay. It's safe to say that the introduction of GST has boosted productivity across the board.

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