



Influence Of GST On The Indian Economy

Author Name: T.S. Pavan

Author Affiliations: BA LLB(Hons.) (4th Year)

(SASTRA Deemed University, Thanjavur – 613401. Tamil Nadu, India.)

Abstract:

After being put into effect in July 2017, the Goods and Services Tax (GST) simplified India's tax code by creating a single, unified system in place of several indirect levies. By reducing the tax burden on enterprises, this simplicity enhanced compliance and attracted foreign investment. Lower manufacturing costs, lower consumer pricing, and higher consumer spending all contributed to economic growth. This was especially the case when it came to lower logistical costs and the elimination of cascading taxes.

Under the GST, effective tax collection and transparency were enhanced, and tax evasion was reduced through online filing and digitization. Despite the progress made, there are still obstacles to overcome, especially concerning SME concerns, the intricacies of the multi-slab GST structure, and the continuous endeavors of the GST Council to simplify compliance and rationalize tax rates.

All things considered, the GST has a huge impact on India's economy, improving compliance, encouraging growth, and streamlining taxation. To fully realize its potential as a catalyst for economic growth, it must continue to be refined as it continues to evolve to support India's economy.

Keywords: Goods and Service Tax(GST), Digitalization, Transparency, Unified tax system, Indirect tax, Online filing, Indian economy, Cascading Effect of tax.

1. Introduction:

The introduction of the Goods and Services Tax (GST) in India in 2017 marked a historic transformation of the country's tax system. GST was designed to replace the existing complex and fragmented system of indirect taxes with a unified, transparent, and efficient taxation regime. This paper explores the multifaceted influence of GST on the Indian economy, examining its impact on various aspects, including economic growth, tax compliance, business operations, and the challenges it has encountered. As one of the most significant tax reforms in India's history, GST has left an indelible mark on the nation's economic landscape.

2. Streamlining the Taxation System:

Before the introduction of GST, the Indian taxation system was characterized by a multitude of indirect taxes, each with its own set of rules and regulations. These taxes included excise duties, service tax, value-added tax (VAT), central sales tax, and more. Each tax had distinct rates, exemptions, and procedural requirements, leading to a complex and fragmented system.

This complexity posed significant challenges for businesses operating in India. They had to navigate a web of tax laws, maintain separate records for each type of tax, and comply with the varying regulations of different tax authorities. This cumbersome system not only increased the administrative burden but also made it challenging for businesses to predict and manage their tax liabilities effectively.

2.1. GST's Simplification of Taxation:

The Goods and Services Tax (GST) aimed to simplify this intricate tax landscape by replacing multiple taxes with a single, unified tax structure. Under the GST regime, a wide range of goods and services are now subject to a common tax rate. This common tax rate, along with standardized rules and procedures, has significantly reduced the complexity of taxation in India.

The introduction of GST has several key aspects that have streamlined the taxation system:

- i. **Common Tax Rate:** GST offers a common tax rate for a wide range of goods and services. This simplifies tax calculations and reduces the need for businesses to differentiate between various tax rates for different products or services.
- ii. **Unified Compliance:** GST has standardized tax compliance processes. It requires businesses to maintain records, file returns, and pay taxes through a single, unified portal. This eliminates the need to interact with multiple tax authorities for different taxes, making compliance more straightforward.
- iii. **Input Tax Credit:** The input tax credit mechanism under GST allows businesses to claim credit for taxes paid on their inputs. This ensures that taxes paid on inputs can be set off against the tax liability on the final product or service. It effectively reduces the cost of production and distribution, making goods and services more affordable for consumers.

2.2. Impact on Businesses:

The simplification of the taxation system under GST has had several positive impacts on businesses in India:

- i. **Reduced Administrative Burden:** Businesses no longer have to grapple with the complexities of multiple tax laws, forms, and returns. The standardized procedures and unified compliance have reduced the administrative burden on businesses, allowing them to focus on their core operations.
- ii. **Cost Savings:** The input tax credit mechanism ensures that taxes paid on inputs are recoverable. This has reduced the overall tax burden on businesses and lowered the cost of production. Reduced production costs have made businesses more competitive and enabled them to offer products and services at more competitive prices.
- iii. **Ease of Doing Business:** The streamlined tax system has enhanced the ease of doing business in India. Businesses can now operate with greater efficiency, knowing that they are subject to a simplified and predictable tax regime. This has attracted both domestic and foreign investments.

2.3. Attracting Foreign Investments:

The simplification and predictability of the tax regime under GST have made India an attractive destination for foreign investments. Here are some key factors that have contributed to this attraction:

- i. **Improved Business Environment:** The ease of doing business has improved significantly in India due to GST. Foreign investors appreciate the reduced administrative complexities, which make it easier to set up and operate businesses in the country.
- ii. **Transparency and Accountability:** The digitization of tax processes and the introduction of e-way bills have increased transparency and accountability in the tax system. This reassures foreign investors that they are operating in a well-regulated and transparent environment.
- iii. **Competitive Advantage:** The cost savings resulting from reduced tax burdens and streamlined logistics due to GST provide businesses, including those owned by foreign investors, with a competitive advantage. This makes their products and services more affordable and competitive in the Indian market.
- iv. **Attracting FDI:** Foreign Direct Investment (FDI) has seen steady growth in India since the introduction of GST. The simplified tax system has instilled confidence in foreign investors, and they are more willing to invest in various sectors of the Indian economy.

In conclusion, the introduction of GST in India has streamlined the taxation system, simplifying the complex web of indirect taxes that existed before its implementation. This simplification has not only reduced the administrative burden on businesses but has also made India an attractive destination for foreign investments. The standardized tax procedures, common tax rates, and input tax credit mechanism have all contributed to making India's tax system more efficient, transparent, and business-friendly, thereby fostering economic growth and attracting investments.

3. Economic Growth:

Goods and Services Tax (GST) has played a pivotal role in stimulating economic growth in India, primarily through the elimination of tax cascading and the improvement of inter-state trade:

3.1. Elimination of Tax Cascading:

In the pre-GST era, the Indian tax system suffered from the issue of tax cascading, which is also known as the "tax on tax" problem. Tax cascading occurs when businesses pay taxes on their inputs, and these taxes are not fully creditable against the final output tax liability. As a result, taxes on inputs become a part of the cost of production, leading to higher prices for goods and services.

3.2. GST's Input Tax Credit Mechanism:

The introduction of GST addressed this issue by implementing the input tax credit mechanism. This mechanism allows businesses to claim credit for the taxes paid on their inputs. In other words, the taxes paid on inputs can be set off against the tax liability on the final product or service. This means that the taxes paid at earlier stages of the supply chain can be fully recovered, and the final product is only taxed on the value added at each stage of production.

3.3. The impact of this mechanism is profound:

- i. **Reduced Production Costs:** Businesses can now reduce their production costs because they are not paying taxes on top of taxes. This reduction in the cost of production means that businesses can offer goods and services at more competitive prices. Lower prices benefit consumers, as they have more purchasing power, which stimulates consumer spending.
- ii. **Increased Competitiveness:** GST's input tax credit mechanism makes businesses more competitive in both domestic and international markets. Reduced production costs enable businesses to price their products more competitively, both within India and in the global marketplace.

3.4. Improvement of Inter-State Trade:

In addition to the elimination of tax cascading, GST has significantly improved inter-state trade in India. Before GST, the movement of goods across state borders was characterized by numerous check posts, where goods were subject to inspections, delays, and additional taxes. These check posts created inefficiencies and added to the cost of doing business.

3.5. Abolishment of Check Posts and Unified National Market:

The introduction of GST abolished these check posts and created a unified national market. This means that goods and services can move seamlessly across state borders without the hindrances of multiple check posts, leading to the following benefits:

- i. **Efficient Logistics:** Reduced logistics costs and shorter transit times have resulted in a more efficient supply chain. Businesses can now move their products more swiftly across state borders, which is especially advantageous for perishable goods and industries reliant on just-in-time inventory.
- ii. **Cost-Effective Transportation:** The elimination of check posts has reduced transportation costs, contributing to cost savings for businesses engaged in inter-state trade. Reduced transportation costs can be passed on to consumers, further enhancing affordability.
- iii. **Increased Market Reach:** Businesses now find it easier to distribute their products across the entire country. This increased market reach has allowed companies to expand their customer base, resulting in higher sales and economic growth.

3.6. Overall Economic Growth:

The reduction in logistics costs, the improvement in inter-state trade, and the elimination of tax cascading have had a cumulative positive impact on the Indian economy. This has led to increased economic activity, which contributes to overall economic growth.

GST has not only simplified the taxation system but has also been a catalyst for economic growth in India. The elimination of tax cascading and the improvement in inter-state trade have made goods and services more affordable, reduced costs for businesses, and increased market reach, all of which stimulate economic activity. As a result, GST has played a significant role in boosting India's economic growth and competitiveness.

4. Improved Tax Compliance:

Certainly, let's elaborate on how the digitalization of tax processes, online return filing, the introduction of the Goods and Services Tax Network (GSTN), and e-way bills have significantly improved tax compliance under the GST regime, resulting in more efficient tax collection, enhanced transparency, and increased government revenue:

4.1. Digitalization of Tax Processes:

The digitalization of tax processes involves the transition from manual, paper-based systems to electronic platforms for various tax-related activities. In the context of GST, digitalization has brought about several transformative changes:

- i. **Introduction of GSTN:** The Goods and Services Tax Network (GSTN) is a central technology platform that plays a pivotal role in the digitalization of tax-related activities under the GST regime. GSTN serves as a one-stop portal for taxpayers to interact with the tax authorities, facilitating various functions such as registration, return filing, and tax payment.
- ii. **Online Return Filing:** Under the GST regime, taxpayers are required to file their returns electronically through the GSTN portal. This move to online return filing represents a significant departure from the traditional paper-based filing system. It simplifies the return filing process and enhances accuracy, making it more accessible to a wide range of businesses.

4.2. Improved Tax Compliance:

The transition to digital tax processes and online return filing has led to several improvements in tax compliance:

- i. **Reduced Scope for Tax Evasion:** The shift to electronic records and transactions has significantly reduced the scope for tax evasion. With digital records, tax authorities can more effectively track and verify transactions. This has made it more challenging for businesses to manipulate their tax liabilities or evade taxes, promoting fairness and compliance.
- ii. **Enhanced Transparency:** The digitalization of tax processes has led to increased transparency in the tax system. Electronic records and transactions create a digital trail that can be audited and monitored by tax authorities. This transparency fosters trust between taxpayers and the government, promoting voluntary compliance and reducing the incidence of tax evasion.

4.3. Introduction of E-way Bills:

E-way bills are another critical component of the digital transformation of the GST regime, specifically related to the movement of goods:

- i. **Efficient Movement of Goods:** E-way bills are electronically generated documents required for the transportation of goods above a certain threshold value. They serve as a digital record of the movement of goods from one location to another. The introduction of e-way bills has streamlined the movement of goods by reducing paperwork and improving the efficiency of logistics.

ii. Reduction in Tax Evasion: E-way bills play a crucial role in reducing tax evasion and fraud related to the transportation of goods. Tax authorities can track the movement of goods in real-time, ensuring that the correct taxes are being paid. This system has proven effective in curbing tax evasion, especially in cases where businesses might have underreported or manipulated the value of goods in transit.

4.4. Impact on Government Revenue and Economic Growth:

The improvements in tax collection processes, driven by digitalization and e-way bills, have had a significant impact on government revenue and economic growth:

i. Increased Government Revenue: The enhanced transparency, reduced tax evasion, and increased compliance have led to higher tax collections. This additional revenue can be reinvested in various sectors, benefiting the economy and society as a whole.

ii. Funding Critical Projects: The additional revenue generated through improved tax collection has the potential to fund critical projects in infrastructure development, healthcare, education, poverty reduction, and more. These investments can foster economic growth and development.

In conclusion, the digitalization of tax processes, online return filing, the introduction of GSTN, and e-way bills have collectively led to improved tax compliance under the GST regime. These digital innovations have streamlined tax administration, reduced the scope for tax evasion, enhanced transparency, and ultimately increased government revenue. The additional revenue generated has the potential to fund crucial projects and programs that can contribute to economic growth and development in India, making the GST regime a pivotal element in the country's economic landscape.

5. Challenges:

The challenges posed by the Goods and Services Tax (GST) in India:

5.1. Concerns of Small and Medium-sized Enterprises (SMEs):

Small and medium-sized enterprises (SMEs) play a crucial role in the Indian economy, contributing significantly to employment and economic growth. However, the transition to the GST regime presented some specific challenges for SMEs:

i. Compliance Complexities: The GST system introduced complexities in terms of return filing, reconciliation of invoices, and adherence to compliance procedures. SMEs, often lacking the resources and expertise of larger corporations, found it challenging to navigate these intricacies.

ii. Technological Capabilities: Many SMEs had limited technological capabilities and were not well-prepared for the digitalization of tax processes. Transitioning to electronic filing and understanding new digital systems presented obstacles for some.

iii. Compliance Burden: Regular return filing and other compliance requirements added to the administrative burden of SMEs, diverting their attention and resources away from core business operations.

To address these concerns, the government introduced various measures to ease the compliance burden on SMEs, including simplifications in return filing processes, threshold exemptions, and lower rates for certain categories of SMEs.

5.2. Multiple Tax Slabs:

One of the challenges of the GST system in India is the presence of multiple tax slabs, with rates ranging from 5% to 28%. The multiplicity of tax rates has led to some issues:

- i. **Complexity:** Multiple tax rates make the system more complex, both for businesses and tax authorities. Determining the applicable rate for a particular product or service can be challenging.
- ii. **Compliance Challenges:** Businesses need to accurately categorize their products and services to apply the correct tax rate, which can lead to confusion and potential errors in compliance.
- iii. **Calls for Simplification:** The existence of multiple tax slabs has been a subject of debate and criticism. There have been calls for a more simplified structure to reduce complexity and improve compliance.

The GST Council, a body comprising representatives from the central and state governments, has been continuously working on rationalizing tax rates and simplifying the compliance process. This ongoing effort seeks to streamline the tax structure and reduce the number of tax slabs.

5.3. Compliance Challenges:

The digitalization of tax processes, while beneficial, has presented some compliance challenges for businesses:

- i. **Complex Return Filing:** The GST return filing process can be complex, requiring businesses to reconcile invoices and ensure accurate reporting. The complexity of this process has, at times, created difficulties for taxpayers.
- ii. **Technical Glitches:** The GSTN portal, which handles various aspects of GST compliance, has encountered technical glitches on occasion. These glitches can disrupt the smooth filing of returns and create compliance challenges for businesses.

Efforts are continually made to enhance the user-friendliness and efficiency of the GSTN portal, ensuring that businesses can navigate the digital tax processes more smoothly.

5.4. Transition Period:

The transition from the old tax regime to the GST system was a complex process, and many businesses faced challenges during this period:

- i. **Adjustment to New Processes:** Adapting to new compliance procedures, such as electronic filing, and adjusting to the changes in tax calculations took time for businesses.
- ii. **IT Infrastructure Challenges:** Some businesses encountered issues related to IT infrastructure readiness, which impacted their ability to smoothly transition to the digital tax system.

Despite these challenges, the transition period marked a significant shift in India's tax landscape. Over time, businesses and tax authorities have adapted to the changes and streamlined their processes.

In conclusion, while the introduction of GST in India has had numerous positive impacts on the economy, it has also posed challenges, particularly for SMEs, due to compliance complexities and technological requirements. The presence of multiple tax slabs has added to the complexity, and technical glitches in the digital system and the transitional phase created hurdles. However, ongoing efforts to simplify the tax structure, enhance digital processes, and provide support for SMEs demonstrate a commitment to address and mitigate these challenges for the benefit of the Indian economy.

6. Conclusion:

The implementation of GST in India has had a profound influence on the nation's economy. The simplification of the taxation system, the boost to economic growth, and improved tax compliance have been some of the prominent positive outcomes of this historic tax reform. Despite challenges, GST remains a pivotal driver of economic growth and development in India.

The successful implementation of GST reflects its essential role in shaping the Indian economic landscape, fostering a more business-friendly and efficient tax system. The positive effects are evident in the streamlined taxation process, which has reduced compliance costs for businesses and attracted foreign investments. Additionally, GST's role in spurring economic growth through the elimination of tax cascading and the improvement of inter-state trade has made it a critical element of India's economic progress.

The digitalization of tax processes has increased transparency, reduced tax evasion, and improved revenue collection, creating opportunities for government investment in infrastructure and welfare. However, the challenges, such as those faced by SMEs and the need for simplification in the GST structure, remain areas that require ongoing attention.

As India continues to move forward, fine-tuning the GST structure and addressing these challenges will be crucial in maximizing its potential as a driver of sustained economic growth and development. The influence of GST on the Indian economy is undeniable, and its continued evolution will play a vital role in shaping the nation's economic future.

References

- i. Impact of GST on the Indian economy, Cleartax. (n.d.). <https://cleartax.in/s/impact-of-gst-on-indian-economy/>.
- ii. GST impact in Indian Economy: Latest News & videos, photos about GST impact in Indian Economy: The Economic Times - page 1, The Economic Times. (n.d.). <https://economictimes.indiatimes.com/topic/GST-impact-in-Indian-economy>.
- iii. How has the GST impacted the Indian economy so far?, Jagranjosh.Com. (2023). <https://www.jagranjosh.com/general-knowledge/how-has-the-gst-impacted-the-indian-economy-so-far-1673875326-1>.
- iv. R. Buddhavarapu, India's bold tax reforms 5 Years on: Why it may be too soon to celebrate, CNBC. (2022). <https://www.cnbc.com/2022/07/25/indias-bold-gst-reform-expands-tax-base-but-too-soon-to-celebrate.html>.
- v. Impact of goods and services tax (GST) on the Indian economy, Enterslice. (2023). <https://enterslice.com/learning/gst-on-indian-economy/>.
- vi. OkCredit, Impact of GST on indian economy: Positives & negatives, OkCredit Blogs - Business Ideas, Tips, Government Schemes & More. (2021). <https://okcredit.in/blog/impact-of-gst-on-indian-economy/>.
- vii. A Study on Impact of GST on Indian Economy - IJSR. (n.d.). <https://www.ijsr.net/archive/v8i4/ART20197500.pdf>.
- viii. G. Contributor, Financialexpress, Economy News | The Financial Express. (2020). <https://www.financialexpress.com/policy/economy-how-gst-changed-the-face-of-indian-tax-system-here-are-six-benefits-to-society-1909166/>.
- ix. GST on the Indian economy, Unacademy. (2023). <https://unacademy.com/content/upsc/study-material/government-schemes/gst-on-the-indian-economy/>.
- x. S. Mahawar, Impact of GST on the Indian economy, iPleaders. (2023). <https://blog.iplayers.in/impact-of-gst-on-the-indian-economy/>.