



## IMPACT OF GST ON THE INDIAN ECONOMY

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### **Abstract**

*Implementing the Goods and Services Tax (GST) in India in 2017 has been one of the most significant economic reforms in the country's history. The GST was introduced to create a unified market and simplify the indirect tax regime. This paper examines the impact of GST on the Indian economy since its implementation. We analyse the impact of GST on various sectors, such as manufacturing, services, and agriculture. We also discuss the impact of GST on the government's revenue collection and the compliance burden on businesses. Our findings suggest that GST has had a mixed impact on the Indian economy. While it has simplified the tax structure and reduced tax evasion, there are still challenges regarding compliance and the impact on small businesses. However, overall, GST has contributed to the formalisation of the economy and increased revenue collection for the government.*

**Keywords:** *GST, Economy, cascading effect of taxes, GST Council, taxation reforms*

### **Introduction**

The Goods and Services Tax (GST) was introduced in India on 1st July 2017, replacing a complex and fragmented indirect tax structure. It is a comprehensive, multi-stage, destination-based tax levied on every value addition in the supply chain. GST is designed to create a single, unified market in India and simplify the indirect tax regime. The implementation of GST has been one of the most significant economic reforms in India's history.

The Indian economy is one of the fastest-growing economies in the world. India has maintained its growth rate despite the global economic slowdown. The introduction of GST is expected to impact the Indian economy significantly. GST is expected to boost economic growth, reduce corruption, and create a level playing field for businesses.

This paper analyses

the impact of GST on the Indian economy since its implementation. We examine the impact of GST on various sectors, such as manufacturing, services, and agriculture. We also discuss the impact of GST on the government's revenue collection and the compliance burden on businesses.



Manufacturing is one of the most critical sectors in the Indian economy. The introduction of GST has had a mixed impact on the manufacturing sector. GST has replaced indirect taxes such as excise duty, service tax, and value-added tax (VAT) levied on manufacturing goods. This has simplified the tax structure and reduced the tax burden on manufacturers. The removal of cascading taxes has reduced the cost of production, making Indian goods more competitive in the global market.

However, implementing GST has also led to a temporary slowdown in the manufacturing sector. Businesses faced challenges in the initial stages of implementation, such as registering for GST, filing returns, and paying taxes. This led to a reduction in the production of goods and a slowdown in the manufacturing sector. However, the situation has improved, and the manufacturing sector is expected to benefit from GST in the long run.

The service sector is among the most significant contributors to the Indian economy. The introduction of GST has had a positive impact on the service sector. GST has replaced various indirect taxes such as service, entertainment, and luxury taxes levied on the provision of services. This has simplified the tax structure and reduced the tax burden on service providers.

The implementation of GST has also led to the formalisation of the service sector. The requirement to register for GST has increased the number of service providers in the formal sector. This has led to increased tax base and revenue collection for the government.

The agriculture sector is the backbone of the Indian economy, employing more than half of the country's population. The implementation of GST has had a mixed impact on the agriculture sector. Agricultural products are exempt from GST, but inputs such as fertilizers, pesticides, and farm equipment are subject to GST. This has increased the cost of production for farmers.

However, the implementation of GST has also led to the formalization of the agriculture sector. Farmers who sell their products to businesses registered under GST must register for GST themselves. This has led to an increase in the number of farmers in the formal sector. This has also led to an increase in revenue collection for the government.

One of the primary objectives of introducing GST was to increase revenue collection for the government. The implementation of GST has led to increased revenue collection for the government. Removing cascading taxes has increased the tax base and reduced tax evasion. GST has also led to an increase in the compliance burden on businesses, leading to an increase in revenue collection



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## **Objectives of The Study**

The study's objectives are to comprehensively understand India's Goods and Services Tax (GST) system. Firstly, the study aims to explain the concept of GST and how it works in the Indian economy. Secondly, it identifies the benefits and challenges of implementing GST in India. This includes an analysis of the impact of GST on various sectors such as manufacturing, services, and agriculture. Finally, the study aims to provide insights into the effects of GST on consumers, businesses, and the economy as a whole. Overall, the study aims to contribute to the existing knowledge base on GST and its impact on the Indian economy.

## **Research Methodology**

The research methodology adopted for this study is exploratory research, which involves gathering information and insights into a relatively unknown topic. In this case, the topic is India's Goods and Services Tax (GST) system. Secondary data sources such as journals, articles, newspapers, and magazines were extensively used to gather relevant information for the study. These sources were chosen based on their relevance and reliability in providing comprehensive information on GST in India. The secondary data were analysed and interpreted to draw conclusions and insights into the concept of GST, its benefits and challenges, and its impact on different sectors in India. Overall, using secondary data sources allowed for a comprehensive and detailed analysis of the topic while minimising the cost and time required for primary data collection.

## **Impact of GST on Cost of Production**

The introduction of GST has significantly impacted the cost of production in the manufacturing sector. Earlier, manufacturers were required to pay multiple taxes such as excise duty, service tax, and VAT on the manufacture of goods. This led to a cascading effect, where taxes were levied on taxes, leading to an increase in the cost of production. However, with the introduction of GST, manufacturers are now required to pay only one tax on the manufacture of goods. This has reduced the cost of production, making Indian goods more competitive in the global market.

## **Impact of GST on Supply Chain**

GST has also significantly impacted the supply chain in the manufacturing sector. Manufacturers were required to maintain multiple tax records, leading to a complex and fragmented supply chain. With the introduction of GST, manufacturers must maintain only one tax record, simplifying the supply chain. This has led to a reduction in the logistics cost and increased efficiency in the supply chain.



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## **Impact of GST on Small Businesses**

The implementation of GST has had a mixed impact on small businesses in the manufacturing sector. Small businesses faced challenges in the initial stages of implementation, such as registering for GST, filing of returns, and paying taxes. This led to a reduction in the production of goods and a slowdown in the manufacturing sector. However, over time, small businesses have been able to adapt to the new tax regime, and the situation has improved. GST has led to the formalisation of the economy, bringing small businesses under the tax net. This has led to increased tax base and revenue collection for the government.

## **Impact of GST on Export**

GST has also significantly impacted the export of goods from India. Removing cascading taxes has made Indian goods more competitive in the global market. This has led to an increase in exports from India. The introduction of GST has also led to simplifying the export process. Exporters must now pay IGST (Integrated Goods and Services Tax) on exports, which is refunded to them after the goods have been exported. This has led to a reduction in the compliance burden on exporters.

## **Impact of GST on Cost of Services**

The introduction of GST has significantly impacted the cost of services in the service sector. Earlier, service providers were required to pay multiple taxes, such as service tax, entertainment tax, and luxury tax, on the provision of services. This led to an increase in the cost of services, making them more expensive for consumers. However, with the introduction of GST, service providers are now required to pay only one tax on the provision of services. This has reduced the cost of services, making them more affordable for consumers.

## **Impact of GST on Service Providers**

The implementation of GST has had a mixed impact on service providers in the service sector. Service providers faced challenges in the initial stages of implementation, such as registering for GST, filing of returns, and paying taxes. This led to a reduction in the provision of services and a slowdown in the service sector. However, over time, service providers have been able to adapt to the new tax regime, and the situation has improved.

GST has also led to an increase in compliance by service providers. The requirement to register for GST has increased the number of service providers in the formal sector. This has led to increased tax base and revenue collection for the government. GST has also simplified the tax structure, making it easier for service providers to comply with the tax laws.



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## **Impact of GST on Consumers**

The implementation of GST has had a mixed impact on consumers in the service sector. The reduced cost of services has made them more affordable for consumers. However, the increase in the tax rate for certain services has led to an increase in the cost of services for consumers. For example, the tax rate for restaurants was increased from 12% to 18% under GST, leading to an increase in the cost of dining out for consumers.

## **Impact of GST on E-commerce**

GST has also had a significant impact on the e-commerce sector in India. Earlier, e-commerce companies were not required to pay VAT to sell goods. However, with the introduction of GST, e-commerce companies are now required to pay GST on the sale of goods. This has led to an increase in the compliance burden on e-commerce companies. However, GST has also simplified the tax structure, making it easier for e-commerce companies to comply with the tax laws.

## **Impact of GST on Cost of Production**

The implementation of GST has significantly impacted the production cost for farmers in the agriculture sector. Inputs such as fertilisers, pesticides, and farm equipment are subject to GST, leading to an increase in the cost of production for farmers. This has reduced the profitability of farming operations, making it difficult for small and marginal farmers to sustain their livelihoods. However, some of these inputs were already subject to taxes such as VAT and excise duty, so the impact of GST has been limited.

## **Impact of GST on Agriculture Marketing**

The implementation of GST has also led to changes in the marketing of agricultural products. Earlier, farmers were required to pay various taxes such as mandi tax, octroi, and entry tax on selling their products. With the introduction of GST, these taxes have been subsumed, reducing the compliance burden for farmers. Introducing e-way bills has also made it easier for farmers to transport their products to different markets.

## **Impact of GST on Exports**

The implementation of GST has also had an impact on the exports of agricultural products. Exports of agricultural products are zero-rated under GST, meaning that they are exempt from tax. This has made Indian agricultural products more competitive globally, increasing exports. However, implementing GST has also led to some challenges in exporting agricultural products, such as the requirement to comply with the GST laws in the destination country.



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## **Impact of GST on Farmers' Income**

The implementation of GST has had a mixed impact on farmers' income in the agriculture sector. The increase in the cost of production has led to a reduction in the profitability of farming operations, making it difficult for small and marginal farmers to sustain their livelihoods. However, the formalisation of the agriculture sector has increased the income of farmers who sell their products to registered businesses. This has led to an increase in revenue collection for the government and an increase in the tax base.

## **Impact of GST on Revenue Collection**

Before the introduction of GST, the indirect tax system in India was fragmented and complex, with many taxes levied at various stages of the supply chain. This resulted in high tax evasion and a low tax base. The introduction of GST has simplified the tax structure and reduced the tax burden on taxpayers, resulting in increased compliance and revenue collection.

The GST Council, which is responsible for the administration of GST, has taken various measures to increase revenue collection. These measures include the introduction of electronic invoicing, the implementation of the e-way bill system, and the formation of anti-evasion units. These measures have improved tax administration and increased revenue collection.

Another significant impact of GST on revenue collection is the increase in the number of taxpayers. GST has led to an increase in the number of taxpayers, particularly in the informal sector. The formalisation of the economy has increased the tax base and revenue collection. The GST Council has also provided various incentives for taxpayers to register under GST, such as the composition scheme for small businesses and the GST amnesty scheme.

The introduction of GST has also led to increased revenue collection from the service sector. The service sector, which was previously taxed under various indirect taxes such as service tax, entertainment tax, and luxury tax, is now taxed under GST. The simplification of the tax structure and the reduction in tax rates for specific services have increased revenue collection from the service sector.

However, implementing GST has also led to a reduction in revenue collection from specific sectors. For example, introducing GST has led to a reduction in revenue collection from the petroleum sector. Petroleum products such as petrol and diesel are not currently under the purview of GST and are taxed separately by the state and central governments. This has led to a reduction in revenue collection from the petroleum sector.



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## **Conclusion**

The implementation of GST has had a mixed impact on the manufacturing sector in India. While it has simplified the tax structure and reduced the cost of production, there have been challenges in the initial stages of implementation. The situation has improved, and the manufacturing sector will benefit from GST in the long run. Removing cascading taxes has made Indian goods more competitive in the global market, leading to increased exports from India. GST has also led to the formalisation of the economy, bringing small businesses under the tax net and increasing revenue collection for the government. However, there is still a need for further reforms to address the challenges small businesses face in the manufacturing sector. GST has significantly reformed the Indian economy and can potentially transform the manufacturing sector.

The implementation of GST has positively impacted the service sector in India. It has simplified the tax structure and reduced the tax burden on service providers. GST has also led to the formalisation of the service sector, bringing service providers under the tax net and increasing revenue collection for the government. However, there have been challenges in the initial stages of implementation, such as registering for GST, filing returns, and paying taxes. The situation has improved, and the service sector is expected to benefit from GST in the long run. GST has significantly reformed the Indian economy and can potentially transform the service sector.

The implementation of GST has had a mixed impact on the agriculture sector in India. While inputs such as fertilisers, pesticides, and farm equipment are subject to GST, agricultural products are exempt from GST. This has increased the cost of production for farmers. However, the formalisation of the agriculture sector has led to an increase in the number of farmers in the formal sector and an increase in revenue collection for the government. Implementing GST has also led to changes in the marketing of agricultural products and increased exports. Overall, the impact of GST on the agriculture sector is expected to be positive in the long run. Still, some challenges must be addressed to ensure that small and marginal farmers are not adversely affected.

The implementation of GST has significantly impacted revenue collection for the government. Removing cascading taxes, simplifying the tax structure, and increasing compliance have increased revenue collection. The formalisation of the economy has also led to an increase in the tax base and revenue collection. The GST Council has taken various measures to improve tax administration and increase revenue collection. However, implementing GST has also led to a reduction in revenue collection from specific sectors. The GST Council must continue to monitor the impact of GST on revenue collection and take appropriate measures to address any issues that may arise.



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