

## A RESEARCH PAPER ON IMPACT OF NEW TAXATION SYSTEM ON ECONOMIC GROWTH OF INDIA

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### ABSTRACT

*Today in India, tax policy is undergoing a sea transformation. Taxes are a major revenue generator for the government and a critical factor in economic expansion. A taxation system is a set of rules and regulations for calculating and collecting taxes. India's constitutional provisions have resulted in a sophisticated tax system in which the roles of the federal and state governments and municipal governments are clearly defined. To create a single market, the planned Goods and Services Tax (GST) aims to remove tax barriers across states. "With the implementation of the GST, the numerous indirect taxes that are now assessed at various points in the production, trade, etc. GST fosters the growth of a single national market and reduces the multiplicative effect of several taxes by standardizing the taxing of goods and services. Researchers and policymakers have long been curious about the impact that alterations to the current system of taxing individual income might have on the growth of the economy. As a result, the purpose of this research is to examine how the "Goods and Services Tax (GST)" has altered the functioning of the economy of the nation.*

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**Keywords:** GST, Tax, Economy, Growth.

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### Introduction

A tax is not a donation in the traditional sense, but rather any monetary contribution exacted by the government in accordance with its statutory power. The Indian constitution gives the government the authority to impose and collect all forms of taxation. The Indian federal government and individual states each have taxing power under Article 246 of the constitution. Reduced poverty and greater social equality are two of the many benefits of a well-functioning tax system. A tax is a form of obligatory financial contribution to the public sector from the private sector, defined in advance and with no associated penalties. The fundamental reason taxes are levied is to fund government operations, but they've also evolved into a tool for realising the welfare state's economic and social goals.

Significant progress has been made toward reforming India's indirect tax system with the implementation of GST. The Goods and Services Tax, or GST, is a massive indirect tax system that promotes and sustains economic development. To date, GST has been adopted by more than 150 nations. The Goods and Services Tax (GST) is a national consumption, sales, and production tax. Any exchange of commodities or provision of services is subject to GST. The previous excise tax, value-added tax, and services tax were all supplanted by this new one. Historically, VAT regulations have

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varied from one state to the next. There are three types of taxes that the majority of firms must pay and adhere to: excise tax, value added tax, and services tax. With GST, all purchases of inputs and capital products are eligible for a full tax credit, which can be applied to the final GST output liability. The current GST system is fair to both large and small businesses. In contrast, tax reform is a crucial tool for any policy that seeks to foster the overall development of society. Therefore, a well-functioning tax system and tax system reforms are of paramount importance.

The Goods and Services Tax was enacted to eliminate the need for the plethora of taxes—including CST, VAT, Service tax, Sales tax, and Central sales tax—that are currently levied on various products from the point of manufacture all the way through to the final consumer, making it difficult to transport goods and conduct business. When the GST is fully implemented, all goods and services will be taxed at the same rate and just one tier of government will be responsible for collecting revenue. The Goods and Services Tax (GST) will simplify taxation and benefit businesses. Companies are hesitant to produce goods in India due to the country's complex tax system, thus when faced with this obstacle, they often resort to unscrupulous practises in order to avoid it.

In India, there are a number of indirect taxes that are levied by various authorities but do not include a system to check unreported income (Excise tax, Value Added Tax, Service tax, etc.), but after the implementation of GST, all transactions involving the sale of goods and services, from the wholesaler to the consumer, will be taxed and every cent will be accounted for. Under the current tax system, a customer can deduct a purchase from a wholesaler. Backdated transactions and entries to dodge taxes will be further restricted due to the GST regime's real-time availability of an itemised trail of transactions.

By mandating the use of PAN and Aadhar cards for filing GST returns, the income tax department will be able to better track transactions than it can at present, and the information collected will be shared with other administrative bodies like the Reserve Bank of India (RBI), the import authorities, and so on. The tax collectors can conduct additional audits if more data is mapped. Including industries like those dealing with real estate and precious commodities like gold in the GST's purview will make it easier to monitor those who evade paying taxes in these fields.

The GST system is meant to record everything from customer requests for quotes to final invoices. Thus, one cannot avoid the inputs or services that were employed in the production of the items. There is to be no trace of paper records left anywhere. Under the GST system, all tax returns must be submitted electronically. They could also get orders, refunds, and other services electronically. Corruption is likely to decrease as a result of less contact between assesses and officers.

India has been making progress toward its goal of fully implementing the goods and services tax system, which is one of the most significant tax reforms in recent decades. Therefore, the goal of this research is to comprehend the idea of goods and service tax and its effect on the Indian economy. Introducing GST facilitates the development of a unified national market and mitigates the multiplier effect of taxes on prices. It will have far-reaching effects on virtually every facet of American commerce. The current indirect tax system in India will be completely reworked as a result of the changes to tax structure, tax incidence, tax computation, supply chain optimization, credit availment & use, compliance, etc.

Therefore, it is important to examine the impact of GST on functioning of Indian Economy and also to study the implications of GST on select sectors of Indian Economy. Therefore, the purpose of this research is to investigate the **“A Study on the Impact of New Taxation System on Economic Growth of a Country”**.

### **Review of Literature**

**Stoilova 2017**, study looks into how taxation has affected expansion in the South African economy. The Auto-Regressive Distribution Lag (ARDL) method was established with the help of South African annual data from 1981 to 2016. The empirical findings verify the conventional wisdom that higher taxes lead to slower economic expansion in South Africa. The study's conclusions include the correlation between economic development, commerce and openness, capital, and taxation. To spur long-term economic expansion in South Africa, the authors of this study stress the significance of fiscal policy.

In a study covering the years 2004–2013, Babatundel, Ibukun, and Oveyemi (2017) looked at how taxation affected economic growth in Africa. Descriptive statistics and unit root tests were run before the estimation process, and they confirmed that GDP and tax were normal and stable variables. Tax income was found to have a positive correlation with GDP and to have stimulated economic expansion in

Africa. The research found that tax income significantly contributed to GDP growth. In his analysis of African country data, Skinner (1988) found that taxes on income, corporations, and imports were more detrimental to economic growth than average export and sales taxes.

The study by **Ojong, Anthony & Arikpo (2016)** looked at how much a rise in tax collection would help the Nigerian economy. The study set out to do three things: look at how effective non-oil revenue is for Nigeria's economy, how corporate income tax affects Nigeria's economy, and how the petroleum profit tax affects Nigeria's economy. The statistical data came from the Central Bank Statistical Bulletin and were gathered using a desk survey approach. The correlation between the dependent and independent variables was calculated using the ordinary least square method of multiple regression analysis. This investigation established a link between the petroleum profit tax and the expansion of the Nigerian economy. Non-oil revenue was shown to have a substantial correlation with GDP expansion in Nigeria.

Everyone agrees that exporting raw materials cannot maintain economic growth for very long, which makes it even more urgent to fund innovative activities. The tax system, which should be designed to promote a market for cutting-edge items and permit structural changes in the economy, is one of the most crucial ways to support innovative activities. Specifically, **(Nechaev, A., and Antipina, O. (2016).**

#### Objective of the Study

GST was implemented in July 2017 to subsume many indirect and direct taxes like service tax, excise, entertainment tax, luxury tax, VAT etc. The main objective of GST is to bring single taxation system for the whole country.

- To study the impact of GST on functioning of Indian Economy.
- To study the awareness level about GST in common man.

#### Research Methodology

The goal of this research is to comprehend the idea of goods and service tax and its effect on the Indian economy. Introducing GST facilitates the development of a unified national market and mitigates the multiplier effect of taxes on prices. It will have far-reaching effects on virtually every facet of American commerce. The current indirect tax system in India will be completely reworked as a result of the changes to tax structure, tax incidence, tax computation, supply chain optimization, credit availment & use, compliance, etc.

The collection of data consists of both primary and secondary data. For the purpose of the Analysis of data will have to use either descriptive statistics or inferential statistics technique.

#### Data Analysis

**Table 1: Descriptive Statistics of Demographic Variables**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Gender	536	1	2	1.39	.489
Age	536	1	5	2.83	1.317
qualification	536	1	4	2.51	1.046
Annual Income	536	1	4	2.68	1.094
Business Turnover	536	1	5	2.85	1.348
Valid N (listwise)	536				

Mean, standard deviation and number of respondents participated were presented in the descriptive statistics table, for the personal profile of respondents including the details like gender, age, qualification, annual income and business turnover. Highest Mean value is observed for variable Age(2.83) and lowest is for Gender(1.39).

To find the significant difference among the respondents about the awareness level on GST following hypothesis is framed;

**H<sub>01</sub>:** There is no significant difference among the respondents about the awareness level on GST.

**H<sub>A1</sub>:** There is a significant difference among the respondents about the awareness level on GST.

**Table 2: One-Sample Statistics table about awareness level on GST**

<b>One-Sample Statistics</b>				
	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Std. Error Mean</b>
I know a little about GST.	536	1.87	.696	.030
I am familiar with the several types of GST, including the IGST, CGST, SGST, and UTGST.	536	1.68	.674	.029
The GST Rates of 0%, 5%, 12%, 18%, and 28% are known to me.	536	1.61	.688	.030
I am aware of when the Goods and Services Tax is applied.	536	1.77	.719	.031
I am knowledgeable about the GST registration procedure.	536	1.67	.711	.031
I pay close attention to the GST registration threshold.	536	1.67	.636	.027
The Input Tax Credit is something I'm aware of.	536	1.92	.758	.033
I know when an E way bill is necessary.	536	1.66	.692	.030
I am aware that GST is charged on supplies, not sales, of goods and services.	536	1.66	.703	.030
I am aware of the GST composite plan.	536	1.74	.688	.030
I am aware of the maximum turnover threshold for composite scheme registration.	536	1.99	.810	.035
I am aware that the GST does away with the tax's cascading effect.	536	1.64	.643	.028
In relation to GST, I am aware of the Anti-Profiteering Agency.	536	1.92	.763	.033
I am aware that the central and state governments jointly control the GST.	536	1.67	.694	.030
Alcohol, gasoline, diesel, natural gas, aviation turbine fuel, and electricity are all exempt from the GST, as far as I'm aware.	536	2.09	.771	.033
I am aware that the GST is a "One Nation, One Tax," meaning that the same tax laws apply throughout all of India.	536	2.07	.712	.031
I am aware that the cost of goods and services in the FMCG industry has not increased since the introduction of the GST.	536	2.15	.782	.034
I am aware that India has the highest tax rate in the world, which is 28%.	536	1.79	.693	.030
I believe that the GST is a more straightforward taxing system than the previous tax system.	536	2.15	.741	.032
I am familiar with the GST Council.	536	2.27	.773	.033
Following the establishment of the GST, each stakeholder is aware of the amount of GST they are responsible for paying; whereas, the prior indirect tax structure lacked transparency.	536	2.19	.733	.032
I am aware that the buyer bears the entire cost of the GST.	536	2.07	.791	.034
Manufacturer, wholesaler, and retailer are not required to pay anything out of pocket.	536	1.98	.745	.032
I am aware that the GST has a paperless policy and that all of its work is done online.	536	2.14	.761	.033
I am aware that the GST rate is the same throughout all States.	536	2.18	.747	.032
I am aware that the product prices have decreased as a result of reducing the cascading impacts.	536	2.06	.842	.036
I am aware that the GST has made it easier to transport products.	536	2.04	.716	.031
I am aware that fewer government departments are visiting or interacting with me after the adoption of the GST.	536	2.10	.810	.035
I am aware that the entire GST system is online, including return, reverse claim, penalty payment, etc.	536	2.02	.742	.032

One sample statistic for various statements related with the level of awareness of respondents towards GST is given in the table above. From the data it can be seen that highest mean (2.27) is for statement "I am familiar with the GST Council" and lowest is recorded for "The GST Rates of 0%, 5%, 12%, 18%, and 28% are known to me" (1.61).

**Table 3: One-Sample Test table about awareness level on GST**

One-Sample Test						
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
					Test Value = 0.5	
I know a little about GST.	45.657	535	.000	1.373	1.31	1.43
I am familiar with the several types of GST, including the IGST, CGST, SGST, and UTGST.	40.521	535	.000	1.179	1.12	1.24
The GST Rates of 0%, 5%, 12%, 18%, and 28% are known to me.	37.494	535	.000	1.114	1.06	1.17
I am aware of when the Goods and Services Tax is applied.	40.896	535	.000	1.271	1.21	1.33
I am knowledgeable about the GST registration procedure.	38.168	535	.000	1.172	1.11	1.23
I pay close attention to the GST registration threshold.	42.568	535	.000	1.170	1.12	1.22
The Input Tax Credit is something I'm aware of.	43.353	535	.000	1.420	1.36	1.48
I know when an E way bill is necessary.	38.737	535	.000	1.159	1.10	1.22
I am aware that GST is charged on supplies, not sales, of goods and services.	38.147	535	.000	1.159	1.10	1.22
I am aware of the GST composite plan.	41.671	535	.000	1.239	1.18	1.30
I am aware of the maximum turnover threshold for composite scheme registration.	42.507	535	.000	1.487	1.42	1.56
I am aware that the GST does away with the tax's cascading effect.	41.108	535	.000	1.142	1.09	1.20
In relation to GST, I am aware of the Anti-Profitteering Agency.	42.983	535	.000	1.416	1.35	1.48
I am aware that the central and state governments jointly control the GST.	39.134	535	.000	1.174	1.11	1.23
Alcohol, gasoline, diesel, natural gas, aviation turbine fuel, and electricity are all exempt from the GST, as far as I'm aware.	47.617	535	.000	1.586	1.52	1.65
I am aware that the GST is a "One Nation, One Tax," meaning that the same tax laws apply throughout all of India.	50.924	535	.000	1.567	1.51	1.63
I am aware that the cost of goods and services in the FMCG industry has not increased since the introduction of the GST.	48.913	535	.000	1.651	1.58	1.72
I am aware that India has the highest tax rate in the world, which is 28%.	43.159	535	.000	1.291	1.23	1.35
I believe that the GST is a more straightforward taxing system than the previous tax system.	51.503	535	.000	1.649	1.59	1.71
I am familiar with the GST Council.	53.002	535	.000	1.769	1.70	1.83
Following the establishment of the GST, each stakeholder is aware of the amount of GST they are responsible for paying; whereas, the prior indirect tax structure lacked transparency.	53.471	535	.000	1.694	1.63	1.76
I am aware that the buyer bears the entire cost of the GST.	46.069	535	.000	1.575	1.51	1.64
Manufacturer, wholesaler, and retailer are not required to pay anything out of pocket.	46.099	535	.000	1.483	1.42	1.55
I am aware that the GST has a paperless policy and that all of its work is done online.	49.838	535	.000	1.638	1.57	1.70
I am aware that the GST rate is the same throughout all States.	52.015	535	.000	1.677	1.61	1.74

I am aware that the product prices have decreased as a result of reducing the cascading impacts.	42.839	535	.000	1.558	1.49	1.63
I am aware that the GST has made it easier to transport products.	49.643	535	.000	1.535	1.47	1.60
I am aware that fewer government departments are visiting or interacting with me after the adoption of the GST.	45.784	535	.000	1.603	1.53	1.67
I am aware that the entire GST system is online, including return, reverse claim, penalty payment, etc.	47.303	535	.000	1.517	1.45	1.58

One-Sample Test table about awareness level on GST is shown in the table above. From the results of the test, it can be seen that the sig value for all the statements under consideration is less than .05 and based on this, it can be stated There is a significant difference among the respondents about the awareness level on GST. This can also be interpreted as level of awareness of respondents on GST vary from respondent to respondent depending upon various factors.

### Conclusion

It is concluded that the last two decades have seen an increase in the globalisation of the Indian economy. Implementing GST would result in the consolidation of federal and state taxes into a unified system. It would also strengthen the status of India in both, local as well as international market. This will likely lead to a rise in the tax to GDP ratio and a decrease in inflation.

Numerous studies have highlighted the importance of tax policy on the economy, specifically their effects on efficiency and equity. A competent tax system should aim to produce tax revenues to fund government expenditure on public services and infrastructure development while also taking into account issues of income distribution.

Sustainable and balanced development in a developing economy like India's is made possible by the implementation of GST. India would gradually adopt international norms in taxation, business regulations, and management techniques, positioning itself among the world's elite in these areas.

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